





WHO WE ARE...

Founded in 1892, the Registered **Master Builders Association** (Master Builders) is driven by the purpose of supporting its members to build a better New Zealand.

We represent the best commercial and residential builders in New Zealand. Our focus is on creating a platform for the sector to come together to discuss the issues affecting it and celebrate the skill and craftsmanship of our members.

As a leading sector for New Zealand's economic growth, our commitment to quality and developing our people helps to build the homes, communities, and workplaces that New Zealanders expect. Master Builders is helping to build a better New Zealand. That is who we are.

A MANIFESTO FOR ACTION

2023 is shaping up as a closely fought election contest. Cost of living pressures and the state of the economy are front and centre in voters' minds.

The polls are tight, and people are looking for solutions to ensure sustainable economic growth provides better jobs and affordable, quality homes and infrastructure.

The building and construction sector matters for New Zealand. Not only does it have a significant impact on the economy, but it also helps build our social fabric – housing, schools, hospitals, and other vital infrastructure. Yet New Zealand's housing and construction system is under pressure and is unable to deliver what the country requires. Housing remains a critical issue for New Zealand, with COVID further exposing failures in the system and weakening its ability to build the affordable, quality, and sustainable homes New Zealanders need. Our economy faces more challenges from high inflation, the cost of living, and climate resilience pressures. This year's election is shaping up to be critical for New Zealand.

This creates a hugely challenging backdrop for New Zealanders wanting to build a home. It also places more strain on business owners and the building community. Given the building and construction sector is one of the top contributors to the country's GDP, improving the productivity and efficiency of the building system will help lift New Zealand's economic performance at a time when it matters most for our country's future prosperity.

Urgent action is needed now. As economic forecasts continue to raise concerns, improving the system is not a 'nice to have', but a necessity. The time for discussing the issues is past – we need to see action, backed by delivery. As a country, we cannot afford not to make the building and construction sector operate more efficiently, or we risk shedding our workforce as businesses fall and fail to deliver the affordable buildings Kiwis need. Those buildings include not only homes, but also schools, hospitals, workplaces and other lived environments.

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Sarah Walker Head of Advocacy and Strategy

Our three key areas for action:



Smoothing the boom-bust cycle to address housing issues

We must address the boom-bust cycle that has continued to plague our sector for the past 50 years.



Improving our productivity

We need to lift our productivity.



Climate action

Climate action is a key defining action.



Smoothing the boom-bust cycle to address our housing deficit

We must address the boom-bust cycle that has continued to plague our sector for the past 50 years.

The peaks and troughs of this cycle are much more extreme for construction than other sectors. But there are solutions that can help us to avoid the extreme volatility. They will require bold action from Government, the sector, and individual businesses.

The boom-bust cycle is also a key contributor to our current housing and infrastructure deficit. It strips our workforce every cycle, hampering our ability to bounce back when the cycle improves. These are well known issues that we have failed to address for too long. Master Builders sees three critical areas where we could drive change to benefit every New Zealander:

Smoothing the boom-bust cycle: As a country we must not accept the current boom-bust cycle – there are solutions that can help us avoid the extreme volatility we currently see in the sector, which ultimately results in unaffordable housing.

Addressing the housing challenge: While we are building a lot of houses, they are still not enough, and are not always the right or affordable houses in the right places, something Auckland's Big Wet and Cyclone Gabrielle have reinforced. Government must take a more active and consistent approach to housing policy, particularly in regard to social housing.

See page 6

Current and future workforce capability and capacity:

The skilled labour shortages have been an issue for the sector for many years. Apprentice numbers have increased substantially, in part due to the Apprentice Boost Scheme. However, we still have a challenge in finding more experienced and diverse workers.

See page 12



We need to lift our productivity.

There are three key areas which will make a difference immediately – consenting, the Resource Management Act (RMA) reform, and procurement. While we accept that RMA reform will take years to have full effect, we see no impediment to the following two immediate reforms:

Consenting reform to improve productivity:

Consenting is one area where well-implemented regulatory changes could significantly reduce delays and costs associated with the build process and create efficiencies to improve the productivity of the sector.

See page 17

Revamped procurement processes to deliver better outcomes for all New Zealanders: The sector and Government must work better together, in order to ensure procurement is focused on more than just cost, and that risk is fairly allocated across parties.

See page 20



The other key defining issue is climate action.

Managing the impacts of climate change:

Greater clarity is still required around the specifics of emissions reduction.

See page 16

Waste and recycling: Greater support for industry efforts for waste minimisation. While a Government roadmap exists, it lacks specifics, creating uncertainty for the sector's businesses and workforce.

See page 25

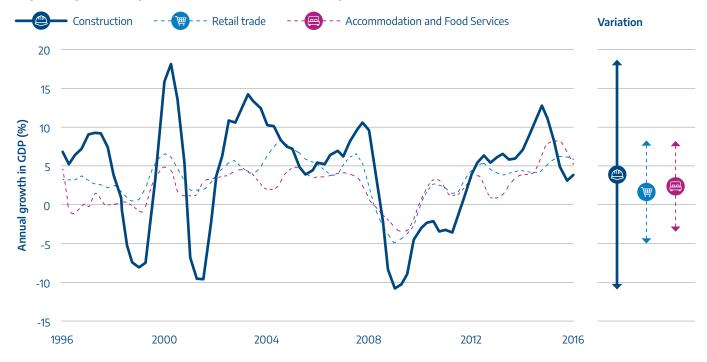


Addressing the housing challenge

Understanding the issues

The impacts are felt across the wider New Zealand economy. Not only is the sector the third largest contributor to GDP, but it also sustains over 540,000 jobs. Yet the peaks and troughs of this cycle are much more extreme for construction than the volatility faced by other sectors.

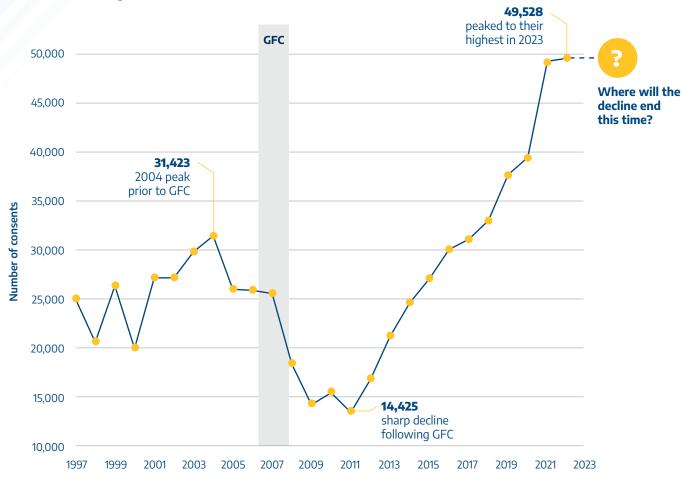
Impact of previous cycles on Construction sector, compared to Retail and Services sectors



Source: PWC Valuing the role of construction in New Zealand economy Final Report 2016

SMOOTHING THE BOOM-BUST CYCLE TO ADDRESS HOUSING ISSUES

Residential building consent numbers



Source: Statistics New Zealand

The Global Financial Crisis (GFC) provides a notable example. During the GFC, the sector was left to market forces, which resulted in an unnecessarily long downturn. Housebuilding declined by 50%, and the residential construction sector lost 25% of its workforce. It took seven years for the workforce to recover to pre-GFC levels. This has directly contributed to the housing deficit we have today. In contrast, in Australia, where state and federal government policies offered greater counter-cyclical incentives, their housing slump was shallow, lasting only two years.

As a country we seem to have moved into a passive acceptance of the boom-bust cycle. **This is** dangerous. We must not continue to accept it as "just the way it is".

In the absence of a predictable and stable pipeline of work, the sector is unable to invest in innovation and/or workforce planning. This limits the ability and confidence of businesses to be able to develop the scale required to deliver once the recovery is underway.

Conversely, during each boom period, the sector scales too quickly to be sustainable. For example, since 2012, we have seen an increase of 41.9% in the number of construction. businesses. Yet they are mainly very small – 98% have less than 20 employees, and the majority (75.8% in 2021) generated a turnover of less than \$500,000. This matters to our economy. These businesses make up 12.6% of all businesses in New Zealand. When the sector experiences dramatic, rapid change it will struggle to adapt when the cycle changes, causing price escalation.

As a country we seem to have moved into a passive acceptance of the boom-bust cycle. This is dangerous. We must not continue to accept it as "just the way it is". There is still time to act.

Our members are currently reporting a softening in consumer enquiries for new build homes. The economic drivers are also backing this up. The relative change in interest rates is much higher now than around the GFC. Between 2003 and 2007, interest rates moved from 5% to 8.25%, compared to the current rate of 5.25% from 0.25% in 2020/21. In this environment, consumers are less likely to build. Developers are also less likely to be able to sell off-plan, making ongoing development a higher risk activity. We all must act now.

SMOOTHING THE BOOM-BUST CYCLE TO ADDRESS HOUSING ISSUES

What we are doing

We have been working to educate key stakeholders on the nature of our boom-bust cycle and provide details of the solutions needed so that the Government and sector can act and improve the impact for the benefit of New Zealand.

We have also been supporting our members with learning and development to prepare them for a change in cycle. This includes providing guidance on what good financial and governance practices look like.

We support the role of the Infrastructure Commission to improve pipeline planning, particularly across local and central government projects. This ensures the sector has visibility to be able to plan and better manage resources.

We have also been working collaboratively with other advocacy organisations in other jurisdictions to understand counter-cyclical approaches and solutions that may also be fit for purpose in New Zealand. For instance, Australian policy makers at both federal and state level have been more active in providing counter-cyclical incentives to boost demand during downcycles, policies we continue to examine for their utility here.

The Government action needed

We believe housing should be designated as 'critical infrastructure' by Government in its National Policy Statement, which would enable Government to take faster and more definitive action in the market. We recommend Government develop a more focused housing policy to match the conditions facing the sector. This includes taking an overarching view of the regulatory framework in order to ensure a coordinated and sequenced approach to change, prioritising measures which will improve sector efficiency (see more on page 16).



We recommend the Government continue to streamline and elevate building and housing as well as infrastructure under one more senior Ministerial portfolio. A stable portfolio under a senior Minister would allow greater strategic focus on a sector which is vitally important to New Zealand's economy and New Zealanders' wellbeing. This will also enable the development of one Government entity to lead housing and infrastructure. We believe this will improve the productivity of the sector through the elimination of the current fragmentation and siloed system approach.

The Government must continue to prioritise its own building and infrastructure projects through the current period. While the changing market conditions mean Government spending should be closely monitored, New Zealand's infrastructure deficit is a long-term issue that cannot be postponed. We recommend Government continue its public infrastructure pipeline. This must include social housing, and not repeating past mistakes where building stops in a downturn, and comes back in a boom, further overheating a stretched market. There is a role for Government, private sector and not-for-profit providers. We believe Government should support other affordable and social housing providers within the market, however they must also recognise the scale needed means these organisations cannot be left to deliver too much too soon.

Government must also address how infrastructure to meet our housing needs is funded. This is a financial burden on local government, and often stifles development. Government needs to be open to different funding models, that is, the not-for-profit sector, Iwi, and Kāinga Ora. This will require procurement models that enable the sector to build more and better (see page 21).

We also recommend that Government should consider timelimited counter-cyclical measures that would help smooth the disruptive effects on the sector of future bust cycles by ensuring long-term continuity of supply. This would include partial Government underwriting of key developments to maintain a steady construction pipeline. Our research indicates that counter-cyclical policies such as those offered in Australia should be considered by Government to help smooth and shorten the current bust cycles.

Summary of recommendations

- Housing to be designated as 'critical infrastructure' in the National Policy Statement, to enable Government to take faster and more definitive action.
- Government to prioritise its own building and infrastructure projects and maintain its pipeline through downcycles.
- Government to be open to new funding models for housing, and for the infrastructure required for new housing needs.
- Government to undertake partial underwriting of key developments to maintain key housing priorities (affordable housing).
- Consideration be given to other timelimited counter-cyclical measures.

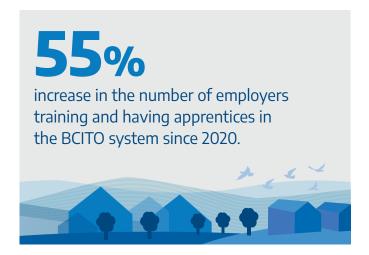
Workforce capability and capacity

Understanding the issues

Finding skilled labour is an ongoing and severe challenge for the building and construction sector. It has ranked among the top five issues facing the sector ever since our 'Constructive Forum' began seven years ago.

The sector is working hard to train. BCITO figures show a 55% increase since 2020 in the number of employers training and having apprentices in the system. The Apprenticeship Boost Scheme has been a very positive government initiative, and we welcomed the announcement of further government support for the scheme in the 2023 Budget. We would have liked to see this important scheme made permanent.

However, this is just one part of the equation. The sector also requires more experienced workers. Projects are growing in complexity and require experienced professional management. In this area we are competing for talent on an international stage. Australia, in particular, offers a strong pull for many with higher wages and lower costs of living. In order to compete, New Zealand needs a programme to attract workers and simplify the immigration process.



What the sector is doing

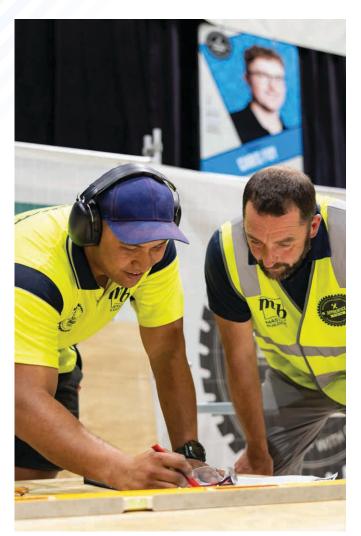
The sector is training more apprentices than ever before. More businesses than ever recognise that a diverse workforce is good for performance and extends the pool. We are also focused on improving diversity across the sector. This is an area where we know we still have a long way to go. We have supported Diversity Works and the Construction Sector Accord (the Accord) to establish a diversity roadmap for the sector, and we are encouraging our members to utilise this within their businesses.

More businesses than ever recognise that a diverse workforce is **good for** performance and extends the pool. We are also focused on improving diversity across the sector.

The Accord diversity roadmap is supporting employers to consider how we can better support workers from different backgrounds to ensure we retain them in the sector longterm. This is particularly the case for Māori and Pasifika, who are joining the sector in good numbers. Our opportunity is to nurture and support them into more leadership roles.



SMOOTHING THE BOOM-BUST CYCLE TO ADDRESS HOUSING ISSUES



We are also undertaking work this year to develop the Master Builders action plan on diversity. This is a strategic focus for us as the leading Association in the sector. We support the work that is already occurring in the sector, and are pleased to see some improvement in our membership, with a third reporting increased diversity over the past year. We know that greater diversity and opportunity are inextricably linked in helping the sector build a better New Zealand.

The sector has faced stereotyping, which presents a challenge to attract the ambitious young. That needs to change, and we intend to be part of the solution. A key role for Master Builders is to showcase the depth and breadth of opportunities in our sector. Through our House of the Year competition and Commercial Project Awards we run an active programme to showcase the great work being undertaken. These programmes prioritise showcasing the award-winning teams, and the innovation and new approaches underway. They play a crucial role in attracting high performers into the sector. Our builders can be proud of the role they play in creating the homes, schools, hospitals, and other facilities that make up New Zealand's communities.

Master Builders is also working closely with Waihanga Ara Rau in its development of the construction workforce strategy. This will allow us to identify the future skills and delivery needs of the sector and build the right talent pipeline.

Government action needed

Our sector requires flexible immigration settings that respond better to the sector's demand for skilled labour. We appreciated being added to the priority worker lists, but will also need to work with Government to ensure the immigration process is easy for workers who are being offered roles in multiple countries.

We need more flexible immigration settings that can adapt in real time to changing market conditions. This is supported by our annual survey – last year only 9% of those looking to bring in skilled workers were able to under the current immigration settings; this year it has increased to 48%. However, the changes do not go far enough, and the system is still too slow and expensive for many in the sector.

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Summary of recommendations

- Make the Apprenticeship Boost Scheme permanent.
- More flexible immigration settings that respond better to the sector's demand for skilled labour.



Understanding the issues

Two areas that we believe will deliver the greatest impacts are improving consenting (both resource and building consents) and procurement.

Consenting

Consenting delays and costs are being felt across all stages of the process – resource consents, building consents, building inspections and Code of Compliance consents.

Two thirds of our members are being impacted by consenting delays. The majority of our builders are experiencing delays of more than five weeks. The impact is additional time, cost, and customer complaints.

All who work in this area agree that the system is not delivering what the country needs, and while we recognise that councils have been stretched with record demand (although softening now), there is frustration within the sector that the issues around consenting processes are still to be addressed.

The issues are not just Building Consent Authority (BCA)specific. Some BCAs work effectively with our members. But these experiences are inconsistent, and the system is inefficient and is a barrier to improvements. The current fragmentation across 67 consenting authorities is an impediment to efficient investment in technology and people. These BCAs often have different requirements. which adds to the productivity challenges. Currently 80% of our members are dealing with more than one BCA each year – and nearly half are dealing with three or more.

Consenting delays costs homeowners time and money

of members are experiencing consenting delays

As a result of these delays, homeowners are experiencing further delays and increased costs

86% of homeowners stated the consenting delay meant they were late moving into their home resulting in additional costs, such as extra rental expenses

50% of homeowners also experienced increased build costs due to these delays

38% of builders stated the delays are resulting in increased complaints and disputes with their customers

LIFTING PRODUCTIVITY TO IMPROVE AFFORDABILITY

Resource management reform is vitally important. But we are not convinced that the current proposals for the reform of the RMA will deliver a better system. The current legislative framework adds real and significant costs and delays to all projects. We need a system that allows us to focus on the areas of critical risk, for instance, where there is an impact on sensitive natural environments, rather than on a one-size-fits-all approach. We also want to see sensible and workable law reform in this space, and if possible, reform that has cross party support.

Procurement

All successful construction projects begin with a robust and fair procurement process. Currently this process continues to fall short across public and private sectors. This is an area where Government can lead, but current Government procurement practices are uneven and overly focused on lowest cost conforming bids. Even when non-price attributes are included in tender requirements, there is a concern they have not been applied objectively. A third of our commercial construction members reported that risk and liability provisions had got substantially worse over the past year. While Ministers have supported different procurement models, this needs to be supported by knowledgeable and capable procurement teams at the Ministry level.

The inefficiencies in the current system are a major drain on productivity. At a time when significant investment is needed in our hospitals and schools, this needs to change to ensure taxpayers gain value from the major infrastructure projects underway.

Currently, on average 26% of the workforce of commercial constructors are focused on procurement administration. One of the key challenges is in these procurement teams themselves. The sector, alongside Government clients, faces the same challenges in finding skilled and experienced people for specialist procurement roles to develop capability and consistency. A key focus for us is to work across the sector, including with Government, to find ways we can collectively grow the talent pool in this area.



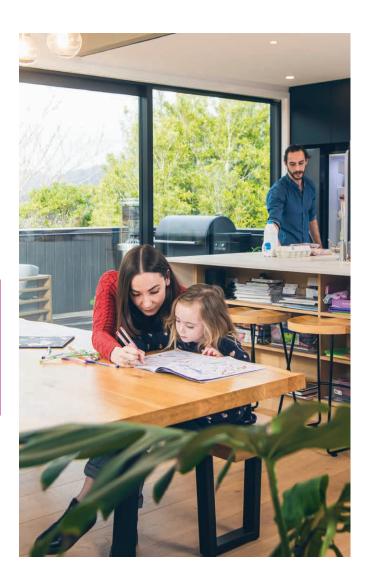
^{*}Average percentage amongst participant answers.

What the sector is doing

A number of our Master Builders sit on the Ministry of Business, Innovation and Employment (MBIE) Consenting Advisory Panel, and we have provided a fulsome submission on the consenting review.

The sector has been working hard through the Accord framework and with the Infrastructure Commission to elevate Government procurement and risk management issues. We have also, in conjunction with the 72 leading construction companies in New Zealand, launched the Vertical Construction Leaders Group to work with Government on improving procurement processes, as well as the other issues facing the sector.

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LIFTING PRODUCTIVITY TO IMPROVE AFFORDABILITY

Government action needed

Building consents

Consenting reform must be given urgency. The Government's first principles review must be to consider rationalising and standardising consenting processes, in order to bring efficiencies and cost savings, and improve the technical expertise within consenting authorities. While this will take time, there are a number of quick wins which can be prioritised now to improve the system immediately.



These include:

- Ensure MBIE is resourced to use its regulatory powers. Builders should be able to flag inconsistencies and improvements to enable a more consistent approach across BCAs. MBIE should provide formal guidance and directives to BCAs on how they can or must interpret the regulations.
- Streamline consenting processes based on the builder's credentials, including volume, complexity, and development size. This will allow the system to recognise good players and relatively simple volume builds.
- Technology provides a strong opportunity. The use of technology for online applications and virtual inspections can lower the number of staff required across the consenting system.

With regard to resource consents, the sector supports establishing long-term regional spatial planning, intentions to establish a streamlined and faster consenting process, and to increase certainty for future urban development and infrastructure projects. However, we are concerned that there is not enough detail regarding how the actions presented will work in practice. This creates key concerns for the sector. We cannot afford to have delays on projects while the new requirements are debated by the sector and in the Environment Court

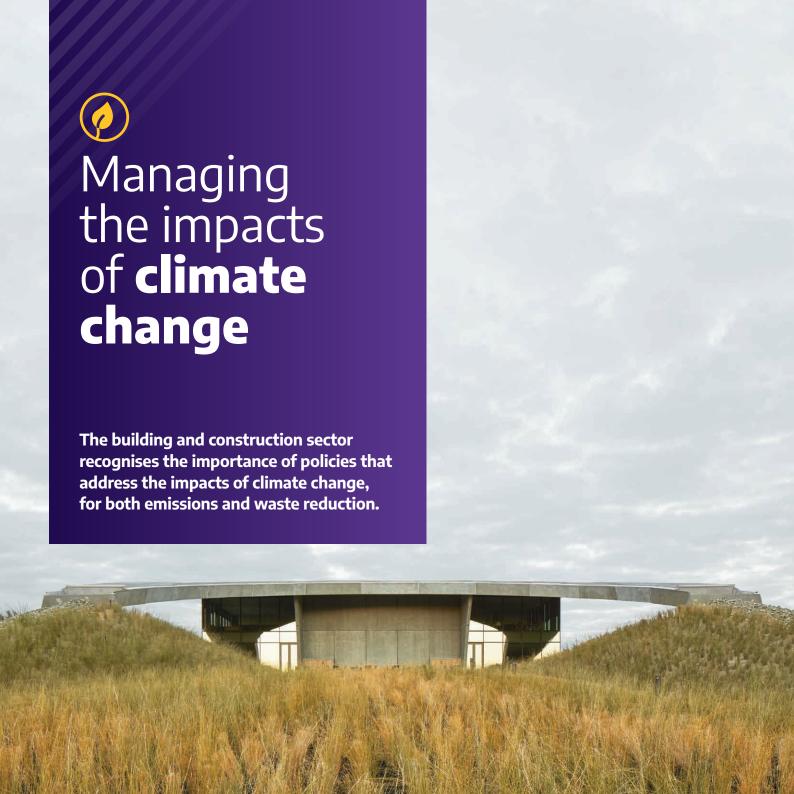
Procurement

Government should consider the establishment of specialised procurement functions for some areas of their construction programme. This would allow expertise and capacity to be built within the public sector, which would transform procurement and risk management practices. Translating procurement guidelines down through the system would then become easier, and streamlining procurement practices across the public sector would become an effective mechanism for process improvement.

Government should consider the **establishment of specialised procurement functions** for some areas of their construction programme. This would allow expertise and capacity to be built within the public sector.

Summary of recommendations

- Complete and implement the consenting review.
- Ensure MBIE is resourced to use its regulatory powers.
- There is also an opportunity to streamline consenting processes based on builder credentials, including volume, complexity, and development size.
- Introduce technology to allow online applications and virtual inspections.
- Continue to ensure good practice is being delivered at a Government agency level, including working with the Accord to highlight good practice.
- Establish specialised procurement functions for construction projects.



Understanding the issues

These are complex issues requiring a focus not only on how we build (which the sector can control), but also what and where we build (which is largely not in the sector's control). The conversation regarding where we build, and ensuring the right type of dwelling is built there, has assumed even greater significance since New Zealand experienced the devastation of Auckland's Big Wet and Cyclone Gabrielle.

Work is underway regarding how we build and how businesses can reduce their own carbon footprint. In our 2023 'State of the Sector' survey, over 60% of respondents reported prioritising waste management practices in their businesses. However, when it came to prioritising carbon emissions reduction, only 25% of respondents reported doing so.

A key issue for many is gaining greater clarity around the Government's Emissions Reduction Plan (ERP). combined with the challenges the sector has faced from skill shortages, supply chain constraints and the resulting cost escalation, when operating in a high inflationary environment.

The issue of building more sustainable buildings is also extremely complex, and is dependent on the entire building system – from the owner, through to design and the wider supply chain. The current market conditions are also a factor, with increasing costs being a key concern, and needing to be balanced against other priorities.

The Emissions Trading Scheme (ETS) provides a good mechanism to allow the market to price and pay for climate emitting products and practices. However, there is still work to do to demonstrate how this will work in practice. as it is not currently incentivising the right behaviours.

The issue of affordability also creates complex and less than optimal trade-offs for both businesses and homeowners when considering more sustainable builds. When we asked homeowners if they were willing to pay a little more for a more sustainable build, 55% were not, and the vast majority of this group stated that they simply could not afford to pay more. However, the same survey found that those who did prioritise sustainability did so mainly to achieve lower ongoing running costs for their home. The move to more sustainable solutions can be at odds with the focus on affordability at the build stage, but there is a role for the sector to better explain the return on investment. We need to educate the home and property owners more on how to measure whole of life cost reductions and initiatives at the outset of a project (when they are experiencing their greatest financial outlay). This lends itself to moving to a discussion about the circular economy rather than just embodied carbon.

Our 2023 survey also found client demand for greater sustainability focus was stronger within the public sector (45% seeing an increase) than the private sector, where only 29% of respondents reported clients demanding a greater sustainability focus.

MANAGING THE IMPACTS OF CLIMATE CHANGE

What the sector is doing

Master Builders appreciates that a sector wide response is required. For the past seven years we have hosted the Constructive Forum to bring together the entire building and construction supply chain – from project owners and developers through architects and engineers to the main contractors and their sub-contractors. Climate action has been on the agenda since its inception, providing opportunities to share new solutions, initiatives and best practice.

A key outcome of this is a series of programmes and trials, which are being undertaken to reuse and recycle as many

construction materials as possible that may otherwise go to landfill. An example of this is a recent trial at a building site for residential townhouses, which is currently being monitored by Unitec's Environmental Solutions Research Centre and the University of Auckland, and programmes that are operating to divert up to 90% of waste from landfill on building sites, including recycling of soft plastic waste on-site back into usable and high performing building products. These programmes are now in place in Auckland, Wellington and Christchurch and we are looking to extend them across the motu.

Master Builders is also committed to supporting the Construction Sector Accord environmental roadmap.



Government action needed

The sector understands that investment is needed in this area, but is looking for clear and consistent policy direction which is enduring across political cycles. This includes greater clarity from the ERP, including the assignment of responsibilities and measurable outputs. We know that under the ERP the five focus areas for building and construction are:

- Reducing the whole of life embodied carbon of buildings
- Accelerating the shift to low carbon buildings
- Improving the energy efficiency of buildings
- Shifting energy use away from fossil fuels
- Establishing the foundations for further emissions reductions in the future

An enduring waste strategy needs to be supported by successive governments for it to ensure the sustainable changes needed to reduce environmentally harmful waste. This will encourage greater investment in infrastructure.

A national fund through the Building for Climate Change programme(s) would support a national-level response to climate change, one which must reinforce practical solutions to help the sector reduce its unnecessary waste. There also needs to be more institutional capacity developed within government agencies to support government ambitions to reduce emissions. This includes ensuring there is also a focus on implementation and education for the sector.

We also want to see better education for the sector and consumers on emissions reduction changes, and the benefits to building in whole of life methodologies.

Summary of recommendations

- Ensure clear and consistent policy direction which is enduring across political cycles to encourage investment.
- Establish a national fund through the Building for Climate Change programme(s) that would reinforce a national-level response and fund practical cross sector solutions.
- Ensure institutional capacity within government agencies to focus on implementation and education for the sector.



For more information about Building a better New Zealand

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