

15 February 2016

HBCF Reform
Fair Trading Policy & Legislation
PO Box 972
PARRAMATTA NSW 2124

Dear Sir/Madam,

Master Electricians Australia (MEA) appreciates the opportunity to comment on the discussion paper released by NSW Fair Trading, *Reform of the Home Building Compensation Fund*.

Operating within the building and construction industry, electrical contractors have a strong interest in the effective functioning of the HBCF. For the most part, electrical contractors are the subcontractors on a building project but it is not unusual for an electrical contract to hold a main contract for residential work that exceeds the \$20,000 threshold and triggers the provisions of the HBCF, in particular for solar installations or home automation work.

Reform option: Limit the requirement for insurance to certain types of building work

Limiting the coverage of the HBCF to core residential building works would benefit consumers, the building industry and the scheme itself in a number of ways.

➤ *Tradespeople*

Tradespeople performing non-core residential building works would benefit both financially and from an administrative standpoint from not having to take out insurance through the HBCF. This is particularly the case for small businesses that are more often than not the ones working on smaller scale projects.

➤ *Consumers*

Not having the added expense of HBCF insurance would give businesses on smaller projects the financial flexibility to charge less for the services they provide to the public. This is a clear benefit to consumers from limiting the coverage of the HBCF.

➤ *The scheme*

The scheme itself would also benefit financially by not needing to invest significant administrative time processing paperwork for the smaller projects that may only marginally exceed the \$20,000 threshold and pose very low risk.

➤ *Risks*

The risk to consumers of limiting the coverage of the HBCF to core residential projects would be minimal. For the most part, smaller projects that could be potentially excluded from the scheme such as pool installations, solar PV and home automation systems, would

take no more than a few days to complete. The likelihood of a business going into insolvency over this period, or not completing, is highly unlikely. Further to this, small businesses undertaking this work often rely on good word of mouth to attract and retain customers and can ill afford to tarnish their reputation with poor workmanship or failing to complete a project. They are far more likely to work with the consumer directly to resolve any problems without the need to access the HBCF.

We acknowledge it as inevitable that some businesses undertaking non-core residential work will fail to commence/complete or will go into liquidation. However, there are other consumer protection arrangements in place that would limit the impact on consumers should the HBCF not be available.

Reform option: Replace combined cover with separate cover for non-completion and defects

Should option six not be adopted by the NSW government, MEA would also support replacing combined cover with separate cover for non-completion and defects. From the data provided in the discussion paper this would not significantly compromise consumer protection, whilst achieving savings for the scheme.

Reform option: Reforms to the licensing system

Reforms regarding changes to the licensing system would be another strategy to improve the viability and effectiveness of the HBCF. Specifically, the requirements for company contractor licences could be reconsidered.

The statistics cited in the discussion paper indicate that of the accepted insolvency claims made under the HBCF, an overwhelming majority arose from companies, as opposed to sole traders and partnerships. This is despite the fact that companies only hold 18% of all contractor licences in NSW. Paying closer scrutiny to the reasons behind company insolvencies in the building and construction industry could be a strategy to drastically reduce the number of claims made under the HBCF by addressing the problem at its source.

As such, we would support a requirement that the nominated qualified supervisor of a company that holds a contractor licence must be a director of the company and not an employee. The nominated supervisor would then be bound by his/her duties as a company director under *Corporation Act 2001* regarding insolvent trading.

Reform option: Refocus continuing professional development to address risk areas

MEA would support a refocus of CPD to address identified risk areas. Based on the data provided in the discussion paper, low rise multi-unit dwellings are a risk area that focused CPD training could address to some extent. While it will certainly add to the cost of a licence, the benefits to the industry, consumers and the HBCF would be significant. As with a reassessment of company contractor licence requirements, CPD requirements would be another strategy to address the problem at its source to prevent a HBCF claim arising in the first place.

Reform option: Random or risk-targeted inspections of licensees

An inspection regime would be valuable regardless of which reform option is implemented. Risk-targeted inspections would act as a further safeguard for consumers and a deterrent to any rogue operators in the building and construction industry.

MEA would welcome the opportunity to be involved in further discussions regarding this issue.

Yours faithfully,



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State Manager – NSW/ACT