



Winner of 2002  
Excellence in Housing  
Awards

- Waste Management
- Environmental Management
- Pole Home

Winner of 2001  
Excellence in Housing  
Awards

- Best Contract House
- Best use of timber
- Best Environmental Management
- Best Waste management in Housing

Winner of 2000  
Excellence in Housing  
Awards

- Best Pole Home
- Best use of Recycled Timber

Winner of 2000  
Timber Development  
Association (TDA)

- Design Award

Winner of 1999  
Excellence in Housing  
Awards

- Master Builder of the year
- Innovative Construction
- Best Pole Home

Winner of 1996  
Excellence in Housing  
Awards

- Best Energy Efficient & Effective Home

Winner of 1995  
Excellence in Housing  
Awards

- Best Building of Creative Design
- Best use of Timber in Housing

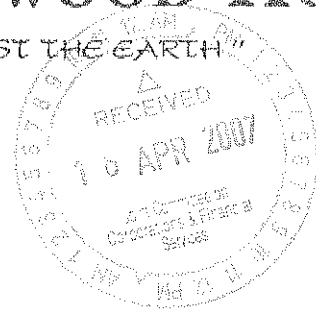
# AUSTRALIAN HARDWOOD HOMES

" HOUSES THAT DON'T COST THE EARTH "

Senate Inquiry

Email [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Fax 62775719



## Inquiry into Australia's Mandatory Last Resort Home Warranty Insurance Scheme

The privatisation of Home Warranty Insurance has resulted in the following:

1. Exit of experienced builders
2. Increased housing costs
3. Skill shortage
4. Virtually no protection for consumers.

### Introduction

#### Exit of experienced builders.

The privatisation of Home Warranty Insurance has caused the exit from the industry of many experienced small builders like me who traditionally train apprentices. I exited the industry as I would not sign personal indemnities or guarantees for my work in favour of private insurances companies.

When the State operated insurance scheme in NSW was wound up in accordance with the Government policy of the day to comply with the requirements of National Competition Policy Home Warranty Insurance premiums rose from \$300 to \$5000 for a typical house that I built. At the same time consumers lost the right to claim insurance except in very limited circumstances. This public policy development was definitely not in the public interest. That is the exemption from compliance with the policy. The NSW state government claimed the Howard government had tied some funding based on compliance with the policy.

### Master Builders of Ecologically Sustainable Houses

Specialising in Energy Efficient Houses, Creative Design, Pole Frame & Stone Construction

ACN 003 893 730 License No. 297770 ABN 68 003 893 730

C/o:  
Bilpin Post Office  
Bilpin N.S.W. 2758

Mob: 0409 393 425  
Fax: (02) 4567 7544  
Email: [lionel@hawknet.com.au](mailto:lionel@hawknet.com.au)

### **Skills shortage**

During my building career I trained 14 people to a high level of skill in carpentry in the so called cottage building industry. The training I gave was a higher more comprehensive skill level than that provided to apprentices engaged in the commercial sector of the Australian building industry.

### **Increased Housing costs**

The people I trained are currently able to charge \$40 to \$60 per hour as skilled carpenters. At the time I exited the industry they were paid \$20 to \$25 per hour. Twenty five dollars was the same rate I received 30 years ago when I gained the same skill level. The cost of carpenters has been static for 30 years until the shortage created in the last 10 years due to privatisation of home warranty insurance. Had I not exited from the industry I would have turned out another 10 tradesman to date.

Labour content on housing and extension work is up to 40% of cost. Therefore the flow through of higher wages increases building costs by 20%. The higher cost of private insurance increases costs by up to 3%.

### **Consumer protection**

Consumers can only claim when a builder has died, become bankrupt or disappeared

Under the government scheme householders were able to have the cost of rectification of defective building work covered. In NSW the Building Services Corporation would give the builder the opportunity to rectify defective building work. If this was unsatisfactory they would arrange for the work to be done and then have the option of recovering the cost from the builder. A similar scheme is still in operation in Queensland. The Queensland scheme was based on the NSW scheme.

### **Policy not in the public interest**

To my knowledge about 8 builders in NSW have taken their own lives due to privatisation of home warranty. One is documented in NSW parliament Hansard. Peter Meridith of the MBA NSW informed builders at a meeting that he was aware of a further 7. An Architect from the eastern suburbs informed me of the suicide of one builder that did work for him. The builder's family would not agree to the release of his name. Suicide is considered an embarrassment by many in our community. At the time of the

information as an office holder of MBA and BFAIR I sought the release of the persons name. John Della Bossca was made aware of the situation and asked to instigate a help line. He took no action. It still out rages me that domestic government policy could go so wrong that people take their own lives while politicians ignore it. The death of good builders was the low point of the failure of the Governments privatisation policy.

The other major social cost is the loss of experienced builders that trained our young people in the carpentry trade. Many of those builders like me were in a financial position to withdraw from the industry. Many of my colleagues did just that. We maintain membership of the Master builders as we are proud to be master builders. However we are not training the kids of our communities.

### History

The History and how the vested interest of the Government the Insurance companies the public service and the industry organizations came together and where the money went. Those bloody Olympic Games.

The government scheme provided a level playing field. It regulated builders, It provide<sup>d</sup> insurance for defective building work. It cost \$300 for a new house. It provided funding for industry training. It was also profitable.

NSW government strapped for cash at the run up to the Olympics with opposition support transferred BSC reserve funds to put towards the Olympics. Privatisation and user pays was the order of the day. At the time the master builders NSW was near bankruptcy. An enquiry into corruption in the NSW building industry had uncovered training funds from the BSC paid to the NSW master builders had been misappropriated and used to balance the books. The MBA had to repay the funds and were afraid that the NSW government might call in the lot at once. They were concerned to appease the government and support its policy's.

Government and the public service were concerned that a major builder might go down and that the BSC wouldn't be able to meet the claims. There had been a series of enquires that all said that the BSC had a culture of corruption and there was a strong consumer advocacy group that was constantly lobbying for more payouts for aggrieved consumers. TV current affairs were running doggy builder programmes with homeless crying consumers and the political pressure from those was intense.

Privatisation of the insurance became a bi partisan approach. Vero and HIH were essentially given the scheme for free. A most outrageous thing in my view to not even sell it, A scheme that had over \$70 million in reserves at the point of privatisation. The government ran the line that to keep the scheme was against international treaties and as a monopoly was anti competitive. They were able to get rid of the perceived liability that a big builder might fall over and bankrupt them. They got rid of the winging consumers on today tonight as it was now a private insurance scheme and wasn't there responsibility. BFAIR formed as a lobby group in the vacuum created by the MBAs fear and the HIA was already collecting a cut from the insurance and was very happy with the situation. BFAIR was mainly the small and medium builders from the MBA. BFAIR became the main lobby group for the industry. Builders collective also formed in Victoria due to the vacuum there as the Victorian MBA was quiet wealthy and had its own insurance section that was also looking to benefit from privatisation. BFAIR and builders collective began lobbying with the support of the consumers for a return to the government system. With the Queensland BSC as the model. Dellabossca was opposed to a return to the government system. In meetings with the minister and public servants they claimed that the underwriters for the Queensland system would pull out at any time and that scheme would collapse. Builders collective and BFAIR arranged to visit Col Davies of the Queensland scheme to ascertain the truth. Which was that they had to keep their heads down and there was political pressure from the private insurers to privatise there state but that there was no indication that their underwriters would withdraw. However they had been directed not to comment publicly on the misinformation.

HIH collapsed. This left Vero the front for Royal Sun alliance the only insurer. Royal Sun was in financial trouble in England. Vero used the collapse of HIH to put pressure on the NSW government to reduce the liability to only having to payout when a builder was bankrupt disappeared or dead and also the reduction of structural liability to 6 years from 7. They had there very own monopoly. They then gouged the premiums increasing them to 3 to \$5,000 and they had a situation of very low or nil liability. Their profitability and share price headed north and they were floated off by Royal Sun.

At the same time conflict broke out in the NSW MBA with BFAIR. A large number of BFAIR members were also MBA council members. MBA executive were keen to get a slice of the action. There were plans to use the insurance premiums to increase the funding of MBA National. MBA National is funded by each state. The two powerful MBAs financially are MBA Queensland and MBA Victoria. MBA NSW started its own insurance division under the wing of MBA Victoria. That was never very successful, too

many cuts of the pie. However as you can see all the industry organizations had an interest in a cut from the premiums. Only BFAIR and builders collective didn't.

The manager of MBA insurance until recently was Dan Nardo. Last week I had a discussion with Dan and he said that the cut from the premiums for MBA and HIA is over 40%. He said the numbers are roughly for the MBA Queensland 18 mill Victoria 12 mill, NSW about 3 the other states about 1 each. Total is about 40 mill. The HIA get 80 mill. There's the vested interest, the industry organizations get about 50 million out of the setup each year, builders, home owners and the community get shafted. A further reason for the insurers and industry organizations wanting to sell home warranty insurance is it is the lead-in for contract works and other associated building insurances. The dollar value of this sector of the market is many times larger than the home warranty sector.

During the period that I was advocating for BFAIR, I was offered insurance by a Vero executive. They were very active politically in the run up to their float trying to keep the lid on the pot. I have received threatening legal letters from HIA for my association with builders collective. A member of my division of the MBA didn't have home warranty insurance. He was asked to do Helen Coonan's job and given home warranty so that he could do the job. She somehow got insurance when no one else could and quiet a bit more than anyone else could get under the scheme. He was told to just do the job and get it done whatever the cost as Helen wanted it ready for a birthday party. The HIA executives did the arrangements. Helen probably gained the impression that the private scheme was really very good. I haven't spoken to my friend for a while. At the time we wanted to go public with it but he didn't want to lose his home warranty insurance.

I would like you to put yourself in the boots of a young builder. One I trained I have in mind. Highly competent young man university trained, very good at cost control. Starts his own company has home warranty insurance, he's doing quiet well. Buys a house and gets a mortgage, he's training apprentices 2 in fact. His wife has a baby. He's pretty pleased with himself. He wins some good contracts. Buys a few extra tools apply to increase his home warranty insurance so that he can start his new jobs. He's calculated that he will make \$200,000 over the next 12 months. He seems to disappear, doesn't return his calls. After a few months I get worried it's not like him not to call back. I finally track his wife down at her work she says he won't speak he's in trouble and bursts into tears. She tells me he won't let her tell anyone he's too ashamed, it's his pride, not even their families know but she has to tell someone. He can't work as he can't get home warranty insurance. I go round and find him severely depressed curtains all

drawn, won't talk. Eventually he does, He can't understand how come. He's done everything right but the government has made it so he can't work, he feels like he can't provide for his young family. He has the contracts he's too embarrassed to tell his clients that he can't get insurance. He won't tell his family, he's had to put off his two apprentices one was his cousins kid. With the help of his friends it took twelve months for him to recover.

He's back to his old self now. Project managing commercial work. Not being what he dreamed of which was to be a builder in his own right contributing back to the community by training our kids in skills. He has all the qualifications all the abilities needed for a good builder. But he didn't have the asset base to sign over to the private insurance companies. In Queensland under that system he would have not had a problem and he'd probably be up to his 6<sup>th</sup> or 7<sup>th</sup> apprentice by now.

Seeing that situation I knew why those other builders took their own lives. Not all young either the same circumstances happened to well established builders with large families.

The blood of those builders is on the hands of the executives of the MBA and HIA, the insurance executives, the politicians that were aware of it that did nothing. BFAIR made them aware of it and they failed to act. They choose their own personal power and greed over people and the community.

### **The solution**

Three suggested solutions.

1. Drop Home warranty and leave the market to be competitive like any other. I doubt that this is palatable to politicians with a view to home owner protection.
2. Implement the Queensland scheme on a national basis. It is the correct policy. From a public interest point of view. It allows a level playing field, trade and consumer education and will lead to an increase in our skills base through a stable industry environment. Home owners will actually be able to get insurance if its reasonable without having to be a government minister. It is also an obvious delivery point for apprenticeship subsidy delivery.

In my experience training apprentices is not cost effective. Its only value is to ensure your own supply of trades for your business and social value as a contribution to the community. It is always cheaper to employ trained people than to train. This should be changed. An obvious way to make apprenticeships more affordable is for government to pay workers compensation insurance on apprentices. That could be funded through the scheme.

3. The British scheme is a workable cost effective national scheme. It is very much like the Queensland scheme except it has a governance structure that puts it at arms length from parliament. This is necessary to stop the political interference that caused the implosion of the NSW BSC. It became a scheme where whoever made the most noise to their politicians got a payout whether it was justified or not. Other people that didn't make a noise that were entitled to didn't get a thing. Federal government shouldn't be involved in that. We can't have a prime minister being asked about some trumped up or otherwise doggy builder storey on some sensationalised current affairs programme.

#### **Standards**

The majority of the disputes that occur over building work can be removed by the implementation of a national standard of tolerances. The trouble with the implementation of the Australian Standards is that none of our project homes would comply. This has always been the problem in getting the project home industry to accept Australian standards as the benchmark. It is a rare brick that is laid to meet the Australian Standards. Consequently we have building consultants giving their opinions on whether building work is of an acceptable standard. There is a huge industry around this and the majority of the consultants can't actually support their opinion of claim of bad building work by referencing the Australian Standards.

#### **Conclusion**

Many in the industry have the profession and community benefit at heart rather than straight profiteering. Building is a complex area. Insurance is made to look a complex area, it's not really. The insurance and how it works and the associated jargon the industry uses take a time to understand.

At the end of the day there needs to be a level playing field. It can be provided by the abolition of the private system, a Queensland scheme or a Builder's fidelity fund. Historically it was builders that pushed for the scheme in the first place many years ago in NSW. Building has traditionally been a boom bust cycle. The government scheme covers that situation. That situation of a big project builder rolling over is

not the big deal it is made out to be as the contracts are all done on a progress payments schedule. The cost is the time of getting a new builder in to pick it up and finish it off and the higher rate because it is insurance work. A few years back an auditor for a collapsed building company contacted me. He was outraged that he had arranged for the companies contractors to finish the jobs of the bankrupt company within the remaining payment schedules of the contracts. The NSW BSC had come in and said no. They then contracted the completion work out to their preferred contractors at 2 to 3 times the price the auditor had arranged. That's one of the downsides of a government scheme.

The current system completely distorts free market forces. It uses builders as underwriters of the product, the bulk of whom are not even aware of the possible ramifications, they just want to work. It is just plain unfair for both consumers and builders. The profiteering of offshore insurance companies over such a long period is a National embarrassment. The death of builders as a result of this policy is a terrible result of self interest , profiteering and dysfunction.

#### **Contacts of interest and expertise**

The following people I'm sure would make themselves available and may be of interest to the inquiry.

Paul Stokoe Ex MBA NSW solicitor. Paul has a through knowledge of The British National Scheme.

Dan Nardo Ex MBA insurance. Dan knows all the structures of the various insurance schemes. He knows the cuts all the interested parties take form the sales point to the underwriters. He also was instrumental in setting up a builder's fidelity fund in South Africa.

Myself. I have expertise in building. I am also knowledgeable on how petty corruption works in the NSW Building tribunal system. Also the appeal mechanisms to the higher courts, the old NSW Commercial tribunal system, the NSW District Court insurance recovery process. How consumers rorted the old system, How builders rorted the system. The setting up of insurance companies.

End



Lionel Buckett

Builder

18 April 2008



## **Senate Inquiry**

Email [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Fax 62775719

## **Inquiry into Australia's Mandatory Last Resort Home Warranty Insurance Scheme**

The privatisation of Home Warranty Insurance has resulted in the following:

- 1.Exit of experienced builders
- 2.Increased housing costs
- 3.Skill shortage
- 4.Virtually no protection for consumers.

### **Introduction**

#### **Exit of experienced builders.**

The privatisation of Home Warranty Insurance has caused the exit from the industry of many experienced small builders like me who traditionally train apprentices. I exited the industry as I would not sign personal indemnities or guarantees for my work in favour of private insurances companies.

When the State operated insurance scheme in NSW was wound up in accordance with the Government policy of the day to comply with the requirements of National Competition Policy Home Warranty Insurance premiums rose from \$300 to \$5000 for a typical house that I built. At the same time consumers lost the right to claim insurance except in very limited circumstances. This public policy development was definitely not in the public interest. That is the exemption from compliance with the policy. The NSW state government claimed the Howard government had tied some funding based on compliance with the policy.

## **Skills shortage**

During my building career I trained 14 people to a high level of skill in carpentry in the so called cottage building industry. The training I gave was a higher more comprehensive skill level than that provided to apprentices engaged in the commercial sector of the Australian building industry.

## **Increased Housing costs**

The people I trained are currently able to charge \$40 to \$60 per hour as skilled carpenters. At the time I exited the industry they were paid \$20 to \$25 per hour. Twenty five dollars was the same rate I received 30 years ago when I gained the same skill level. The cost of carpenters has been static for 30 years until the shortage created in the last 10 years due to privatisation of home warranty insurance. Had I not exited from the industry I would have turned out another 10 tradesman to date.

Labour content on housing and extension work is up to 40% of cost. Therefore the flow through of higher wages increases building costs by 20%. The higher cost of private insurance increases costs by up to 3%.

## **Consumer protection**

Consumers can only claim when a builder has died, become bankrupt or disappeared

Under the government scheme householders were able to have the cost of rectification of defective building work covered. In NSW the Building Services Corporation would give the builder the opportunity to rectify defective building work. If this was unsatisfactory they would arrange for the work to be done and then have the option of recovering the cost from the builder. A similar scheme is still in operation in Queensland. The Queensland scheme was based on the NSW scheme.

## **Policy not in the public interest**

To my knowledge about 8 builders in NSW have taken their own lives due to privatisation of home warranty. One is documented in NSW parliament Hansard. Peter Meridith of the MBA NSW informed builders at a meeting that he was aware of a further 7. An Architect from the eastern suburbs informed me of the suicide of one builder that did work for him. The builder's family would not agree to the release of his name. Suicide is considered an embarrassment by many in our community. At the time of the

information as an office holder of MBA and BFAIR I sought the release of the persons name. John Della Bossca was made aware of the situation and asked to instigate a help line. He took no action. It still out rages me that domestic government policy could go so wrong that people take their own lives while politicians ignore it. The death of good builders was the low point of the failure of the Governments privatisation policy.

The other major social cost is the loss of experienced builders that trained our young people in the carpentry trade. Many of those builders like me were in a financial position to withdraw from the industry. Many of my colleagues did just that. We maintain membership of the Master builders as we are proud to be master builders. However we are not training the kids of our communities.

## **History**

The History and how the vested interest of the Government the Insurance companies the public service and the industry organizations came together and where the money went. Those bloody Olympic Games.

The government scheme provided a level playing field. It regulated builders, It provide insurance for defective building work. It cost \$300 for a new house. It provided funding for industry training. It was also profitable.

NSW government strapped for cash at the run up to the Olympics with opposition support transferred BSC reserve funds to put towards the Olympics. Privatisation and user pays was the order of the day. At the time the master builders NSW was near bankruptcy. An enquiry into corruption in the NSW building industry had uncovered training funds from the BSC paid to the NSW master builders had been misappropriated and used to balance the books. The MBA had to repay the funds and were afraid that the NSW government might call in the lot at once. They were concerned to appease the government and support its policy's.

Government and the public service were concerned that a major builder might go down and that the BSC wouldn't be able to meet the claims. There had been a series of enquires that all said that the BSC had a culture of corruption and there was a strong consumer advocacy group that was constantly lobbying for more payouts for aggrieved consumers. TV current affairs were running doggy builder programmes with homeless crying consumers and the political pressure from those was intense.

Privatisation of the insurance became a bi partisan approach. Vero and HIH were essentially given the scheme for free. A most outrageous thing in my view to not even sell it, A scheme that had over \$70 million in reserves at the point of privatisation. The government ran the line that to keep the scheme was against international treaties and as a monopoly was anti competitive. They were able to get rid of the perceived liability that a big builder might fall over and bankrupt them. They got rid of the winging consumers on today tonight as it was now a private insurance scheme and wasn't there responsibility. BFAIR formed as a lobby group in the vacuum created by the MBAs fear and the HIA was already collecting a cut from the insurance and was very happy with the situation. BFAIR was mainly the small and medium builders from the MBA. BFAIR became the main lobby group for the industry. Builders collective also formed in Victoria due to the vacuum there as the Victorian MBA was quiet wealthy and had its own insurance section that was also looking to benefit from privatisation. BFAIR and builders collective began lobbying with the support of the consumers for a return to the government system. With the Queensland BSC as the model. Dellabossca was opposed to a return to the government system. In meetings with the minister and public servants they claimed that the underwriters for the Queensland system would pull out at any time and that scheme would collapse. Builders collective and BFAIR arranged to visit Col Davies of the Queensland scheme to ascertain the truth. Which was that they had to keep their heads down and there was political pressure from the private insurers to privatise there state but that their was no indication that their underwriters would withdraw. However they had been directed not to comment publicly on the misinformation.

HIH collapsed. This left Vero the front for Royal Sun alliance the only insurer. Royal Sun was in financial trouble in England. Vero used the collapse of HIH to put pressure on the NSW government to reduce the liability to only having to payout when a builder was bankrupt disappeared or dead and also the reduction of structural liability to 6 years from 7. They had there very own monopoly. They then gouged the premiums increasing them to 3 to \$5,000 and they had a situation of very low or nil liability. Their profitability and share price headed north and they were floated off by Royal Sun.

At the same time conflict broke out in the NSW MBA with BFAIR. A large number of BFAIR members were also MBA council members. MBA executive were keen to get a slice of the action. There were plans to use the insurance premiums to increase the funding of MBA National. MBA National is funded by each state. The two powerful MBAs financially are MBA Queensland and MBA Victoria. MBA NSW started its own insurance division under the wing of MBA Victoria. That was never very successful, too

many cuts of the pie. However as you can see all the industry organizations had an interest in a cut from the premiums. Only BFAIR and builders collective didn't.

The manager of MBA insurance until recently was Dan Nardo. Last week I had a discussion with Dan and he said that the cut from the premiums for MBA and HIA is over 40%. He said the numbers are roughly for the MBA Queensland 18 mill Victoria 12 mill, NSW about 3 the other states about 1 each. Total is about 40 mill. The HIA get 80 mill. There's the vested interest, the industry organizations get about 50 million out of the setup each year, builders, home owners and the community get shafted. A further reason for the insurers and industry organizations wanting to sell home warranty insurance is it is the lead-in for contract works and other associated building insurances. The dollar value of this sector of the market is many times larger than the home warranty sector.

During the period that I was advocating for BFAIR, I was offered insurance by a Vero executive. They were very active politically in the run up to their float trying to keep the lid on the pot. I have received threatening legal letters from HIA for my association with builders collective. A member of my division of the MBA didn't have home warranty insurance. He was asked to do Helen Coonan's job and given home warranty so that he could do the job. She somehow got insurance when no one else could and quiet a bit more than anyone else could get under the scheme. He was told to just do the job and get it done whatever the cost as Helen wanted it ready for a birthday party. The HIA executives did the arrangements. Helen probably gained the impression that the private scheme was really very good. I haven't spoken to my friend for a while. At the time we wanted to go public with it but he didn't want to lose his home warranty insurance.

I would like you to put yourself in the boots of a young builder. One I trained I have in mind. Highly competent young man university trained, very good at cost control. Starts his own company has home warranty insurance, he's doing quiet well. Buys a house and gets a mortgage, he's training apprentices 2 in fact. His wife has a baby. He's pretty pleased with himself. He wins some good contracts. Buys a few extra tools apply to increase his home warranty insurance so that he can start his new jobs. He's calculated that he will make \$200,000 over the next 12 months. He seems to disappear, doesn't return his calls. After a few months I get worried it's not like him not to call back. I finally track his wife down at her work she says he won't speak he's in trouble and bursts into tears. She tells me he won't let her tell anyone he's too ashamed, it's his pride, not even their families know but she has to tell someone. He can't work as he can't get home warranty insurance. I go round and find him severely depressed curtains all

drawn, won't talk. Eventually he does, He can't understand how come. He's done everything right but the government has made it so he can't work, he feels like he can't provide for his young family. He has the contracts he's too embarrassed to tell his clients that he can't get insurance. He won't tell his family, he's had to put off his two apprentices one was his cousins kid. With the help of his friends it took twelve months for him to recover.

He's back to his old self now. Project managing commercial work. Not being what he dreamed of which was to be a builder in his own right contributing back to the community by training our kids in skills. He has all the qualifications all the abilities needed for a good builder. But he didn't have the asset base to sign over to the private insurance companies. In Queensland under that system he would have not had a problem and he'd probably be up to his 6<sup>th</sup> or 7<sup>th</sup> apprentice by now.

Seeing that situation I knew why those other builders took their own lives. Not all young either the same circumstances happened to well established builders with large families.

The blood of those builders is on the hands of the executives of the MBA and HIA, the insurance executives, the politicians that were aware of it that did nothing. BFAIR made them aware of it and they failed to act. They choose their own personal power and greed over people and the community.

## **The solution**

Three suggested solutions.

1. Drop Home warranty and leave the market to be competitive like any other. I doubt that this is palatable to politicians with a view to home owner protection.
2. Implement the Queensland scheme on a national basis. It is the correct policy. From a public interest point of view. It allows a level playing field, trade and consumer education and will lead to an increase in our skills base through a stable industry environment. Home owners will actually be able to get insurance if its reasonable without having to be a government minister. It is also an obvious delivery point for apprenticeship subsidy delivery.

In my experience training apprentices is not cost effective. Its only value is to ensure your own supply of trades for your business and social value as a contribution to the community. It is always cheaper to employ trained people than to train. This should be changed. An obvious way to make apprenticeships more affordable is for government to pay workers compensation insurance on apprentices. That could be funded through the scheme.

3. The British scheme is a workable cost effective national scheme. It is very much like the Queensland scheme except it has a governance structure that puts it at arms length from parliament. This is necessary to stop the political interference that caused the implosion of the NSW BSC. It became a scheme where whoever made the most noise to their politicians got a payout weather it was justified or not. Other people that didn't make a noise that were entitled to didn't get a thing. Federal government shouldn't be involved in that. We can't have a prime minister being asked about some trumped up or otherwise doggy builder storey on some sensationalised current affairs programme.

## **Standards**

The majority of the disputes that occur over building work can be removed by the implementation of a national standard of tolerances. The trouble with the implementation of the Australian Standards is that none of our project homes would comply. This has always been the problem in getting the project home industry to accept Australian standards as the benchmark. It is a rare brick that is laid to meet the Australian Standards. Consequently we have building consultants giving their opinions on whether building work is of an acceptable standard. There is a huge industry around this and the majority of the consultants can't actually support their opinion of claim of bad building work by referencing the Australian Standards.

## **Conclusion**

Many in the industry have the profession and community benefit at heart rather than straight profiteering. Building is a complex area. Insurance is made to look a complex area, it's not really. The insurance and how it works and the associated jargon the industry uses take a time to understand.

At the end of the day there needs to be a level playing field. It can be provided by the abolition of the private system, a Queensland scheme or a Builder's fidelity fund. Historically it was builders that pushed for the scheme in the first place many years ago in NSW. Building has traditionally been a boom bust cycle. The government scheme covers that situation. That situation of a big project builder rolling over is

not the big deal it is made out to be as the contracts are all done on a progress payments schedule. The cost is the time of getting a new builder in to pick it up and finish it off and the higher rate because it is insurance work. A few years back an auditor for a collapsed building company contacted me. He was outraged that he had arranged for the companies contractors to finish the jobs of the bankrupt company within the remaining payment schedules of the contracts. The NSW BSC had come in and said no. They then contracted the completion work out to their preferred contractors at 2 to 3 times the price the auditor had arranged. That's one of the downsides of a government scheme.

The current system completely distorts free market forces. It uses builders as underwriters of the product, the bulk of whom are not even aware of the possible ramifications, they just want to work. It is just plain unfair for both consumers and builders. The profiteering of offshore insurance companies over such a long period is a National embarrassment. The death of builders as a result of this policy is a terrible result of self interest , profiteering and dysfunction.

### **Contacts of interest and expertise**

The following people I'm sure would make themselves available and may be of interest to the inquiry.

Paul Stokoe Ex MBA NSW solicitor. Paul has a through knowledge of The British National Scheme.

Dan Nardo Ex MBA insurance. Dan knows all the structures of the various insurance schemes. He knows the cuts all the interested parties take form the sales point to the underwriters. He also was instrumental in setting up a builder's fidelity fund in South Africa.

Myself. I have expertise in building. I am also knowledgeable on how petty corruption works in the NSW Building tribunal system. Also the appeal mechanisms to the higher courts, the old NSW Commercial tribunal system, the NSW District Court insurance recovery process. How consumers rorted the old system, How builders rorted the system. The setting up of insurance companies.

End

Lionel Buckett

Builder

18 April 2008



