



## **Final report**

Review of the Decision Regulation Impact Statement on the introduction of national  
licensing of property occupations

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## Executive Summary

Synergies Economic Consulting (Synergies) has been engaged by the Office of Best Practice Regulation (OBPR) to review the Decision Regulation Impact Statement (DRIS) released by the National Licensing Steering Committee (NLSC) earlier in 2013, which assessed the impact of the introduction of a national licensing system for property occupations. The DRIS found that national licensing would result in a net benefit of \$611.45 million to Australia and \$88.88 million to Queensland in Present Value (PV) terms.

The key objectives of this review are to:

- determine whether the national licensing system proposed in the DRIS provides a net benefit to Queensland; and
- identify any significant adverse impacts of the proposal for industry or government in Queensland.

Based on a review of the DRIS and stakeholder submissions and the outcomes of the consultation session with stakeholders in the Queensland property industry, the following were identified as the key issues to be focused on in the review:

- the labour mobility benefits from national licensing which, based on the analysis in the DRIS, account for 52% of the ongoing net benefit of national licensing for Queensland;
- the cost of transitional and ongoing costs of national licensing which were raised as an issue of concern by Queensland stakeholders;
- the impact of changed qualification requirements for several licence categories which account for 27% of the net ongoing benefit for Queensland;
- the removal of mandatory CPD changes which was raised as an issue by stakeholders. It does not affect the estimated benefits for Queensland as mandatory CDP is not a feature of Queensland's current licensing arrangement;
- the impact of increasing the maximum licence period; and
- the impact of the exemptions to be included in the national licensing system.

Several deficiencies were detected with the estimate of the impacts of national licensing on Queensland. The key conclusions from the review are:

- the labour mobility benefit is significantly overestimated in the DRIS, due to:

- the inappropriate application of an estimate developed by the Productivity Commission (PC); and
- the lack of consideration for industry-specific factors and the limitations they place on the mobility of labour.

Based on the data and information available, it is highly uncertain that there will be any material labour mobility benefit from national licensing. It is proposed that, if a value is to be attributed to this benefit, the lower bound estimate in the DRIS (a 10 year PV of \$9.74 million for Queensland) be adopted;

- the transition and implementation costs of national licensing are underestimated in the DRIS due to the failure to include the full costs associated with transitioning to national IT systems and licence databases. An alternative cost estimate has been developed based on advice provided by the Office of Fair Trading (OFT);
- based on the assumptions and approach detailed in the DRIS, it was not possible to replicate the impacts of the proposed changes to qualification requirements under national licensing. Alternative estimates were developed using the approach and assumptions (excluding the fee and time required per unit of competency) set out in the DRIS. This resulted in the calculation of a net cost to Queensland as a result of changed qualification requirements of \$4.22 million in PV terms, compared to a net benefit in the DRIS of \$25.23 million;
- the DRIS calculated a significant benefit from increasing the maximum licence period to five years. In Queensland, this benefit was estimated at \$10.7 million in PV terms. This represents a significant overestimate of the benefit of increasing the maximum licence period to five years as the DRIS has adopted the assumption that all licence holders will apply for five year licences. This assumption is incorrect given that a significant proportion of current licence holders renew annually instead of applying for three year licences under the current arrangements. Based on data provided by the OFT, an alternative estimate of \$4.3 million (in PV terms) has been developed for the benefit of increasing the maximum licence period to five years for Queensland licence holders; and
- the DRIS includes a business value-add benefit for Queensland of \$8.74 million in PV terms. This benefit is based on the time savings to licensees resulting from changes to requirements imposed on licence holders. As our analysis shows that these time savings will not accrue to Queensland licence holders, there is not considered to be any value-add benefit to Queensland businesses.

The table below presents the estimated impacts included in the DRIS and Synergies' alternative estimates.

### Overview of DRIS and alternative estimates of impacts of national licensing (PV terms)

Impact	DRIS estimate	Conclusion	Synergies estimate
<b>Transition and implementation costs</b>			
Time for licensees to understand reforms	(2.29)	Not assessed - no change proposed	(2.29)
Business value-add	(0.76)	Not assessed – no change proposed	(0.76)
Licensing authority – set-up costs	(0.26)	Not assessed – no change proposed	(0.26)
National licensing register – jurisdictional implementation	(0.65)	Underestimated – did not fully consider transitional IT and database costs to jurisdictions	(2.91)
Government communications	(0.30)	Not assessed – no change proposed	(0.30)
<b>Ongoing impacts</b>			
Real estate agents – qualification changes	(2.77)	Underestimated cost impact – could not replicate DRIS est.	(9.05)
Licensees doing both real estate and business work – qualification changes	(0.25)	Overestimated cost impact – could not replicate DRIS est.	(0.05)
Agent's representatives – qualification changes	28.10	Overestimated benefit – could not replicate DRIS est.	4.23
Auctioneers – qualification changes	0.15	Underestimated benefit – could not replicate DRIS est.	0.65
Consistent maximum licence period	10.70	Overestimated benefit – not all licence holders will apply for five year licences	4.30
Reducing personal probity requirements	0.05	Not assessed – no change proposed	0.05
Removing the need to hold multiple licences	3.19	Not assessed – no change proposed	3.19
Removing the need to hold multiple licences – government	(1.76)	Not assessed – no change proposed	(1.76)
Licensing authority – operational	(1.72)	Not assessed – no change proposed	(1.72)
Labour mobility	48.73	Overestimated benefit – industry-specific factors not considered	9.74
Business value-add	8.74	National licensing will not result in time saving for licensees –no business value-add benefit	-
<b>Net impact</b>	<b>88.88</b>		<b>3.06</b>

Source: DRIS and Synergies modelling.

At best, the implementation of the proposed national licensing system for property occupations will result in a small net economic benefit for Queensland. While there is uncertainty over the extent to which this benefit would be realised under national licensing, there are components of the DRIS proposal that could be implemented unilaterally by the Queensland Government to improve outcomes for consumers and businesses in the Queensland property sector. These changes are:

- exemptions for non-residential property transactions that take place between related entities or that exceed \$10 million in value or 10,000 sqm in area; and
- changes to qualification and training requirements where an investigation determines they are appropriate.

## Contents

<b>Executive Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>9</b>
<b>2 Background</b>	<b>11</b>
2.1 Summary of the DRIS	11
2.2 Key issues	13
<b>3 Labour mobility</b>	<b>14</b>
3.1 Position in DRIS	14
3.2 Stakeholder views	16
3.3 Analysis	17
3.4 Conclusion	22
<b>4 Cost impacts</b>	<b>23</b>
4.1 Position in DRIS	23
4.2 Stakeholder views	24
4.3 Analysis	25
4.4 Conclusion	28
<b>5 Maximum licence period</b>	<b>30</b>
5.1 Position in DRIS	30
5.2 Stakeholder views	31
5.3 Analysis	31
5.4 Conclusion	34
<b>6 Changed qualifications and CPD</b>	<b>35</b>
6.1 Position in DRIS	35
6.2 Stakeholder views	38
6.3 Analysis	40
6.4 Conclusion	44
<b>7 Exemptions</b>	<b>46</b>

7.1	Position in DRIS	46
7.2	Stakeholder views	46
7.3	Analysis	47
7.4	Conclusion	47
<b>8</b>	<b>Conclusion</b>	<b>48</b>

## Figures and Tables

Figure 1	Approach to calculating impact of changed qualification requirements	35
Table 1	Ongoing annual impacts of national licensing for Queensland and Australia	12
Table 2	One-off transition costs for national licensing for Queensland and Australia	12
Table 3	Labour mobility impacts	15
Table 4	NPV of labour mobility benefit under three assumptions	16
Table 5	Transition impacts in Queensland	24
Table 6	Database and IT costs of transitioning to national licensing	27
Table 7	Revised transition impacts for Queensland	29
Table 8	Breakdown of three year licences, renewal fees and cost of processing	32
Table 9	Annual savings from reduced application processing costs	33
Table 10	Hours and fees required per unit by licence category in Queensland	41
Table 11	Impacts of proposed changes to qualification requirements on Queensland licensees	42
Table 12	Complaints against property agents as a proportion of licensees by jurisdiction	43
Table 13	DRIS and alternate estimates of impact of changed qualification requirements (PV terms)	44
Table 14	Overview of DRIS and alternative estimates of impacts of national licensing (PV terms)	49



## 1 Introduction

The implementation of national licensing for certain occupations has been identified as a priority area of reform by the Council of Australian Governments (COAG). The National Occupational Licensing Authority (NOLA) is currently in the process of establishing a national licensing system under a two-stage process. Property occupations are included in the first wave of this reform process.<sup>1</sup>

Earlier in 2013, the National Licensing Steering Committee (NLSC) released a Decision Regulation Impact Statement (DRIS) on the proposal for national licensing of the property occupations. This DRIS sets out the proposed national licensing system for property occupations, finding a significant benefit both to Australia and Queensland.

The Office of Best Practice Regulation (OBPR) has engaged Synergies Economic Consulting (Synergies) to review this DRIS and to comprehensively assess the impact that the proposed national licensing system for property occupations will have on Queensland. The key objectives of this review are to:

- determine whether the national licensing system proposed in the DRIS provides a net benefit to Queensland; and
- identify any significant adverse impacts of the proposal for industry or government in Queensland.

Four key steps were followed in undertaking this review:

- initial review of the DRIS and stakeholder submissions relevant to Queensland and provision of an issues paper to the OBPR to inform the stakeholder consultation session;
- stakeholder consultation with key stakeholders in the Queensland property sector;
- analysis of data provided by the stakeholders and data and information obtained from other sources to verify the impacts reported in the DRIS; and
- draw conclusions on the impacts identified and estimated in the DRIS based on the data and information analysed, including proposing alternative estimates of the impacts where possible.

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<sup>1</sup> Electrical, plumbing, gasfitting, property, refrigeration and air conditioning occupations are included in the first wave of reform. The occupations in the second wave of reform are building and building-related occupations, valuers and conveyancers.

The remainder of this report is structured as follows:

- section 2 contains the relevant background information, including the key issues in the DRIS;
- section 3 assesses the labour mobility benefit;
- section 4 assesses the potential administrative cost savings from and transitional costs of national licensing;
- section 5 assesses the benefit from increasing the maximum licence period;
- section 6 assesses the net benefit of the changes proposed to qualification requirements and Continuing Professional Development (CPD);
- section 7 assesses the impact of the licensing exemptions; and
- section 8 summarises our findings.

## 2 Background

### 2.1 Summary of the DRIS

Earlier this year, the NLSC released a DRIS to recommend a preferred option for policy to underpin the establishment of a national licensing scheme for property occupations. The DRIS:

- identifies the nature of the problem being assessed;
- explains the rationale for selecting the proposed model and the elements that comprise the model; and
- assesses the costs and benefits of the proposed model, both at a national level and for each jurisdiction.

The DRIS identified the following problems with the current approach to the licensing of property occupations:

- costs to property agents and business associated with maintaining a multiple jurisdiction approach to licensing and meeting different regulatory requirements; and
- reduced efficiency impacts on households and the economy because the current approach creates impediments to mobility of labour and imposes unnecessary regulatory burdens.

The DRIS assessed the impact of the national licensing of property occupations on all jurisdictions. As previously discussed, the focus of this analysis is the impact of national licensing on Queensland.

The DRIS found that the proposal has the potential to deliver significant ongoing net benefits to Australia. The analysis in the DRIS showed that it would take less than a year for the benefits of national licensing to start exceeding costs. Table 1 summarises the ongoing annual impacts of national licensing, both nationally and for Queensland.

**Table 1 Ongoing annual impacts of national licensing for Queensland and Australia**

Impact	Queensland (\$m)	Australia (\$m)
<b>Impacts on licensees</b>		
Removing requirement for continuous professional development	-	36.99
Qualification changes for real estate agents, business agency work, agent representatives, strata managers and auctioneers	3.87	14.09
Consistent licence period	1.645	8.00
Removing the need to hold multiple licences	0.49	2.27
<b>Impacts on government</b>		
Removing the need to hold multiple licences	(0.27)	(0.92)
NOLA – operating costs	(0.23)	(1.12)
Labour mobility	7.42	22.97
<b>Broader impacts</b>		
Business value-add	1.34	13.61
Other ongoing impacts	0.01	0.75
<b>Total net ongoing impact</b>	<b>14.28</b>	<b>96.66</b>

Source: National Licensing Steering Committee (2013). Decision Regulation Impact Statement – Proposal for national licensing of the property occupations.

The DRIS also estimated the transitional costs that will be incurred in implementing national licensing for property occupations. These impacts are summarised in Table 2.

**Table 2 One-off transition costs for national licensing for Queensland and Australia**

Impact	Queensland (\$m)	Australia (\$m)
<b>Impacts on licensees</b>		
Time for licensees to understand reforms	(2.45)	(8.35)
<b>Impacts on government</b>		
NOLA – set-up costs	(0.27)	(1.31)
National licensing register – jurisdictional implementation	(0.70)	(4.06)
Government communications	(0.33)	(1.95)
<b>Broader impacts</b>		
Business value-add	(0.82)	(2.78)
<b>Total transitional impact</b>	<b>(4.57)</b>	<b>(18.46)</b>

Source: National Licensing Steering Committee (2013). Decision Regulation Impact Statement – Proposal for national licensing of the property occupations.

In Present Value (PV) terms, the benefits to Queensland of the ongoing impacts of national licensing over the ten year period of analysis are estimated to be \$93.16 million, compared to the PV of the transitional costs of \$4.28 million. The estimated net benefit of national licensing for Queensland is \$88.88 million in PV terms. The corresponding national estimate is \$611.45 million.

Automatic mutual recognition was considered as an alternative to national licensing. While it was considered that this option would provide some of the benefits that

would be achieved through national licensing, it was concluded that implementing this option would result in a more complex, less transparent, higher risk environment and would impose higher costs on business (compared to national licensing). On this basis it was concluded that automatic mutual recognition was not the preferred option.

## **2.2 Key issues**

Based on a review of the DRIS and stakeholder submissions, particularly in relation to the impacts quantified for Queensland, the key issues on which this will review will focus are:

- the labour mobility benefits from national licensing which, based on the analysis in the DRIS, account for 52% of the ongoing net benefit of national licensing for Queensland;
- the cost of transitional and ongoing costs of national licensing. The consideration of cost impacts in the DRIS has been raised as an issue of concern by Queensland stakeholders;
- the impact of changed qualification requirements for several licence categories and the removal of mandatory CPD in some jurisdictions. The changes to qualification requirements still account for 27% of the net ongoing benefit for Queensland. The CDP changes is not as important for Queensland as it is for other jurisdictions, given that Queensland does not currently have mandatory CPD;
- the impact of increasing the maximum licence period; and
- the impact of the exemptions to be included in the national licensing system.

For each of these issues, the following sections set out the position and analysis contained in the DRIS, the views of Queensland stakeholders, and the results of our analysis of the impact on Queensland. Where the estimated impacts in the DRIS are not considered appropriate, alternative estimates have been proposed.

## 3 Labour mobility

### 3.1 Position in DRIS

The DRIS estimates the labour mobility benefit of national licensing for Queensland to be \$48.73 million in NPV terms. This equates to 32% of the national labour mobility benefit and 52% of the annual ongoing benefit for Queensland.

The DRIS defines labour mobility as the extent to which labour can move around the economy in response to opportunities in the marketplace. The DRIS states that lowering the costs faced by market participants will result in an increased proportion of participants taking the opportunity to move to a different jurisdiction. Improved labour mobility results in an increase in industry and national productivity. The NLSC considers this to be a key benefit of national licensing.

While acknowledging the difficulty associated with quantifying the economic benefit from increased labour mobility, the DRIS has produced an estimate for this benefit, drawing heavily on a 2009 Productivity Commission (PC) publication titled 'Review of Mutual Recognition Schemes'. It is noted in the DRIS that this review is not directly applicable to national licensing. However, we considered it to provide a possible scenario to indicate the potential impacts from an increase in labour mobility. The box below provides a summary of the PC report.

#### **Box 1 Productivity Commission's general equilibrium analysis of improved labour mobility**

As part of the PC's review of Mutual Recognition Schemes, it conducted an assessment of the impacts of the schemes on labour markets using several analytic tools, one of which was a series of Computable General Equilibrium (CGE) simulations. This technique was used to examine the potential magnitude of, and the mechanisms behind, the economic effects of improved mobility of workers in mutually recognised occupations.

The effect of mutual recognition was measured in the context of a resources boom, with two simulations being modelled:

- baseline scenario – workers in mutually recognised occupations assumed to be perfectly immobile between jurisdictions, while workers in all other occupations were assumed to be perfectly mobile; and
- mutual recognition scenario – interjurisdictional labour mobility assumed to be infinite (perfect) for all occupations.

The natural resources boom was modelled as a 10% shock to the export prices of several mining products, including coal, oil, gas and iron ore.

The modelling estimates the upper bound of the effects of mutual recognition, based on the extreme assumption that mutual recognition arrangements has made registered workers perfectly mobile, from a baseline of zero mobility.

Removing barriers to mobility of registered workers resulted in economy-wide gains in real output and average real wages. For example, perfect labour mobility of registered workers adds approximately 0.3 of a percentage point to the baseline growth of real gross domestic product of 2.1 per cent.

**Source:** Productivity Commission 2009, Review of Mutual Recognition Schemes, Research Report, Canberra.

The DRIS used the 0.3% increase in real GDP result from the PC analysis as the basis for its estimation of the labour mobility benefits from national licensing. The approach applied in the DRIS can be summarised as follows:

- applying the 0.3% estimate to real GDP in 2011 results in an increase in GDP of \$4 billion per annum;
- it is assumed that national licensing would result in the realisation of 10% of the total labour mobility benefit estimated by the PC (i.e. \$400 million per annum);
- licence numbers were used as a proxy to estimate the proportion of the benefit attributable to each occupation. For property occupations, this proportion is 11% (i.e. \$44 million); and
- the benefit was then prorated for each occupation based on registered employment.<sup>2</sup>

To apportion the jurisdictional labour mobility impacts, the national estimate was distributed according to each jurisdiction's share of licensees in Australia. Table 3 presents the results of the application of this methodology to estimate the labour mobility benefits of national licensing.

**Table 3 Labour mobility impacts**

\$ million	Queensland (\$m)	Australia (\$m)
Annualised ongoing impact	7.42	22.97
10-year NPV as at 1 July 2012	48.73	150.80

In presenting these results, the DRIS stated that the estimates represent only one possible scenario for the labour mobility benefits from national licensing and also noted that:

- mutual recognition already allows for some movement between jurisdictions, which is not consistent with the PC analysis;
- there are also several other factors which influence a decision to move locations for work (e.g. family and personal circumstances, relocation costs, etc.);
- the share of labour mobility benefits would differ between occupation groups; and
- the PC estimate would only be realised if there was the same terms-of-trade shock to the economy as was assumed in the PC's CGE analysis.

<sup>2</sup> It should be noted that this represents a change from the Consultation RIS, in which the labour mobility benefit for each occupation was determined based on the total number of workers.

Given the uncertainty associated with the impact of national licensing on labour mobility, sensitivity analysis was performed on the results. Sensitivity analysis was performed on the assumption that 10% of the benefit estimated by the PC would be realised through national licensing on the basis that:

- it was considered to be the input with the greatest level of uncertainty; and
- feedback from jurisdictions suggested that 10% should be considered an upper bound estimate for this input.

Two alternative proportions were subsequently modelled – 5% and 2%. Table 4 presents the results of this sensitivity analysis for Queensland and Australia.

**Table 4 NPV of labour mobility benefit under three assumptions**

Assumption	Queensland (\$m)	Australia (\$m)
10% of the PC estimate	48.73	150.80
5% of the PC estimate	24.36	75.4
2% of the PC estimate	9.74	30.16

### 3.2 Stakeholder views

Feedback received from stakeholders at the consultation session was consistent with the view that the 10% assumption adopted to model the impact of national licensing on labour mobility represents an upper bound estimate. The majority of stakeholders held the view that the potential labour mobility benefits for national licensing are significantly overstated in the DRIS.<sup>3</sup> All stakeholders agreed that licensing arrangements are not a material constraint on labour mobility for the Queensland property sector.

The key points raised by stakeholders at the consultation session in relation to the potential impact of national licensing on labour mobility were:

- markets are not nationally focused but are generally more localised, as evidenced by the small number of licensees that operate in multiple jurisdictions;
- while labour mobility is a more significant issue in the non-residential property sector, the current licensing arrangements do not currently prevent movement in this area, but rather impose an additional cost on business; and

<sup>3</sup> While one stakeholder supported the labour mobility impact estimated in the DRIS, this stakeholder also acknowledged that the current licensing arrangements for property occupations were not restricting the movement of labour between jurisdictions, rather increasing the cost associated with doing so. This cost impact does not represent a labour mobility benefit, but rather an increase in business value-add.



- the differences in legislation regulating the sale of property across the jurisdictions is the more significant barrier to increased labour mobility for property occupations, and this issue will not be addressed by national licensing.

### **3.3 Analysis**

The analysis of the impact of national licensing on labour mobility included in the DRIS consists of two parts:

- a critical analysis of the methodology used to estimate the benefit in the DRIS; and
- an analysis of the likely magnitude of the labour mobility impact, based on data and information provided by stakeholders and a review of the relevant literature.

#### **3.3.1 Critical analysis of DRIS methodology**

As discussed in section 3.1, it was acknowledged in the DRIS that there is considerable uncertainty regarding the magnitude of the labour mobility impact of the national licensing of property occupations. The analysis of the DRIS estimate for this impact focuses on three components of the DRIS methodology:

- the use of the change in real GDP estimated by the PC in its 2009 report as a starting point for the analysis;
- the assumption that 10% of the benefit estimated by the PC would be realised by national licensing; and
- the allocation of the total labour mobility benefit across occupations based on the number of registered workers.

Each of these components are analysed in the sections below.

#### *Use of PC estimate for change in GDP*

There are two key assumptions that underpin the PC's estimate of a 0.3% increase in GDP that is used in the DRIS as the starting point for estimating the labour mobility impact of national licensing:

- movement from a scenario where workers in mutually recognised occupations are assumed to be perfectly immobile to a scenario of perfect labour mobility for all occupations; and
- a 10% shock to the price of several key export commodities, designed to replicate the impact of a resources boom.

In relation to the first of these assumptions, the DRIS acknowledges that there is already some movement of labour between jurisdictions and that there are a wide range of factors not related to licensing that impact on mobility of labour:<sup>4</sup>

The benefit estimated by the Productivity Commission would not be the same under national licensing because mutual recognition already allows for mobility between jurisdictions. There are also a number of other factors which influence a decision to move locations for work, including personal and family circumstances, permanent or temporary relocation costs and differences in conduct requirements between jurisdictions that will remain in place even after national licensing is implemented.

To account for this, only 10% of the increase in GDP estimated by the PC was attributed to the impact of national licensing on labour mobility.

In relation to the second of the PC's assumptions, there is considerable uncertainty over whether the shock applied by the PC is a reasonable impact given the current status of the Australian economy. The DRIS acknowledges that the application of this scenario to current economic conditions is problematic:<sup>5</sup>

Given current economic circumstances, some have argued that it is unclear whether this form of shock is likely to eventuate in the near future because the relative price propagation mechanism that was relevant in 2009 may not be as important for Australia in the future. Commodity prices have now eased from their recent peaks and increasing production volumes may be more significant for drawing skilled tradespersons to the resources sector.

Given the current state of the Australian economy and the conservative forecasts regarding global commodity prices and economic growth, it is highly questionable whether a shock of this magnitude is appropriate for assessing the economic impact of removing restrictions on labour mobility. The increase in GDP generated by the PC is therefore not considered an appropriate starting point for estimating the labour mobility impact of national licensing.

*Assumption that 10% of benefit would be realised by national licensing*

As stated above, the DRIS assumed that 10% of the labour mobility benefit estimated by the PC would be achieved through national licensing. Based on 2011 real GDP data, this translates to national licensing increasing national economic output by \$400 million per annum.

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<sup>4</sup> NLSC (2013), p 73.

<sup>5</sup> NLSC (2013), p 73.

This is not consistent with a review of the literature on the factors that drive labour mobility. Of the studies reviewed, none identified the national standardisation of licensing criteria (or any other factor related to occupational licensing) as a significant factor driving labour mobility.<sup>6</sup> The assumption adopted in the DRIS is therefore considered to overstate the impact of national licensing on economic output.

#### *Allocation of total benefit across occupations*

The final step in the approach to estimating the labour mobility impact of national licensing in the DRIS is the allocation of the total labour mobility benefit across occupations based on number of registered workers. This assumes that, controlling for the differences in the number of registered workers between occupations, all occupations will experience the same increase in labour mobility as a result of national licensing. This is not a reasonable assumption, as discussed in the following section.

### **3.3.2 Analysis of the labour mobility impact of national licensing**

The extent to which labour mobility benefits are realised as a result of a policy change (such as national licensing) is dependent on two sets of factors:

- factors that apply to all occupations, such as accessibility of information on work opportunities across regions, moving costs, the availability of infrastructure in a region, and regulatory settings that may impede the mobility of labour; and
- occupation-specific factors that may represent barriers to labour moving between jurisdictions.

The impact of the first set of factors is taken into consideration in the DRIS through the assumption that 10% of the PC estimate should be adopted for national licensing (noting that this is likely an upper bound estimate). However, while the relevance of the occupation-specific factors to the property sector is noted in the DRIS, they do not impact on the methodology for estimating the labour mobility benefit for property occupations.

There are two key characteristics of the property sector that impact on the mobility of labour:

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<sup>6</sup> Hamilton, R. & Whalley, J. (1984). Efficiency and Distributional Implications of Global Restrictions on Labour Mobility. *Journal of Development Economics*, 14, 61, 75; Boschman, R., Erikson, R. & Lindgren, U. (2008). How does labour mobility affect the performance of plants? The importance of relatedness and geographical proximity. *Journal of Economic Geography*, 9 (2), pp 169-190; Jolivet, G., Postel-Vinay, F. & Robin, J. (2006). The Empirical Content of the Job Search Model; Labor Mobility and Wage Distributions in Europe and the US. *European Economic Review*, 50, pp 877-907; Gustman, A. & Steinmeir, T. (1993). Pension Portability and Labor Mobility. *Journal of Public Economics*, 50, pp 299-323; Boeri, T. & Terrell, K. (2002). Institutional Determinants of Labor Reallocation in Transition. *Journal of Economic Perspectives*, 16(1), pp 51-76.

- the importance of local knowledge and reputation to the competitiveness of licensees in the property sector; and
- the need to understand differences across jurisdictions in relation to the legislation that applies to property transactions.

These two factors result in the geographic dimension of property markets being defined very narrowly. Rather than markets encompassing large areas, property markets are more localised. This makes it very difficult for workers to move between jurisdictions and remain competitive. This is evidenced by larger property businesses that establish franchises in other jurisdictions recruiting agents that are established in the local areas (i.e. strong local reputation and an understanding of jurisdictional legislation) rather than introducing agents from other jurisdictions.<sup>7</sup>

Stakeholders in the Queensland property sector have advised that these factors, particularly the differences in legislation governing property transactions across jurisdictions, represent the most significant barriers to increased labour mobility for property occupations and are far more significant than the current licensing arrangements. While there is a greater degree of labour mobility for occupations in the non-residential property sector, current licensing arrangements do not impede labour mobility in this sector, but simply impose an additional cost on licence holders moving between jurisdictions.

While these barriers were not factored into the development of the DRIS methodology for estimating the labour mobility impact of national licensing, their potential adverse impact on the realisation of the estimated benefits was recognised:<sup>8</sup>

For the property occupations, the realisation of labour mobility benefits may depend on the extent to which local knowledge affects a licensee's ability to compete in another jurisdiction. While this may limit some licensees from becoming more mobile in the property market, there would still be greater opportunity to work in contiguous states and territories, generate more integrated national practices and work in jurisdictions with high demand for property services. Some jurisdictions believe that this factor is significant enough to lower the impact for property services.

As these factors will remain unchanged under national licensing, it is difficult to justify the approach and benefit estimate contained in the DRIS.

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<sup>7</sup> Based on the stakeholder consultation session.

<sup>8</sup> NLSC (2013), p 72.

The DRIS also fails to provide market-based evidence of the potential for the estimated labour mobility benefits to be realised in the property sector. In particular, the DRIS does not:

- present any data or information demonstrating that there is pent up demand in the property workforce that would move into other jurisdictions in the event of national licensing being introduced; or
- demonstrate that it is the additional licensing cost under the current system that is preventing the mobility of labour as opposed to other barriers, including the importance of local knowledge and reputation and understanding jurisdictional legislation.

The Office of Fair Trading (OFT) has provided data on the number of mutual recognition applications received from licence holders in other jurisdictions in 2012/13. The number of applications received totalled 227, made up of:

- 110 from real estate agents
- 95 from real estate agent salespersons
- 21 from auctioneers
- 1 from a property developer.

This total translates to approximately 0.6% of total licensed workers in the property sector in Queensland.<sup>9</sup> Furthermore, Table 4.8 on page 75 of the DRIS provides the proportion of licence holders in each jurisdiction that also hold licences in other jurisdictions. Excluding the Australian Capital Territory, the proportions in the other jurisdictions were all relatively low, particularly in the four largest jurisdictions (4% for New South Wales, Victoria and Queensland and 1% for Western Australia).

This data indicates a low level of interest in the property sector for operating in multiple jurisdictions or moving between jurisdictions. When this data is combined with stakeholder views and evidence from studies and literature that licensing criteria does not represent a material impediment to the mobility of labour, it is concluded that the introduction of national licensing is unlikely to result in a material increase in labour mobility in property occupations.

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<sup>9</sup> OFT data.

### 3.4 Conclusion

The estimate of the labour mobility benefit of the national licensing of property occupations for Queensland is overstated. This finding is based on:

- the shock applied to GDP in the PC study to generate the estimate that moving from a scenario where workers in mutually recognised occupations are perfectly immobile to a scenario of perfect labour mobility is not appropriate given current and forecast economic conditions;
- the attribution of 10% of the benefit of improved labour mobility estimated by the PC to national licensing is not appropriate on the basis that the national standardisation of licensing criteria is not a significant factor driving increased labour mobility; and
- the method used to allocate the national benefit estimate from national licensing across occupations over-estimates the benefit for the property sector as this approach ignores the occupation-specific factors that represent a barrier to the increased mobility of labour, in particular the differences in legislation governing property transactions between jurisdictions. These barriers will result in the improvement in labour mobility being far less for property occupations than for other sectors.

There is no evidence that the introduction of national licensing will result in a material increase in the mobility of labour among property occupations. The existence of this benefit is therefore highly uncertain. To the extent that labour mobility impacts are to be included in the analysis of national licensing, the lower bound estimate produced in the sensitivity analysis in the DRIS, which assumed 2% of the increase in economic output estimated in the PC study, should be adopted. This translates to a national benefit of \$30.16 million and a benefit to Queensland of \$9.74 million in PV terms over the 10 year period of analysis.

## 4 Cost impacts

### 4.1 Position in DRIS

This section assesses the estimates in the DRIS for:

- the transition and implementation costs of national licensing
- the administrative cost savings from national licensing.

#### 4.1.1 Transition and implementation costs

The DRIS categorises the implementation and transition costs of national licensing as follows:

- cost of time required for licensees to understand the reforms. This was calculated as the product of the time allocated for licensees to understand the reforms (90 minutes per licensee), the wage rate in the relevant jurisdiction and the number of existing licensees (with an industry growth factor). This was assessed to be the greatest cost impact of transitioning to national licensing;
- a loss of business value-add, due to the reduction in efficiency associated with the additional time required to transition to national licensing. This cost is assumed to be one third of the direct cost to labour (i.e. cost of time required for licensees to understand the reforms);
- the set-up costs for NOLA. Of the total costs, \$0.27 million have been allocated to Queensland;<sup>10</sup>
- the cost of implementing and transitioning to a national licensing register for all licensed occupations, estimated at between \$2.5 and \$5 million per jurisdiction. Of this total, \$0.7 million has been attributed to licensed property occupations in Queensland; and
- the cost associated with government communications. The cost to the Queensland Government has been estimated at \$0.33 million and is based on estimates calculated by the Victorian Government in relation to the communications costs incurred when it made changes to property industry licences.

Table 5 summarises the set-up and transition costs in Queensland of introducing national licensing for property occupations.

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<sup>10</sup> Of the total set-up and transitional cost of national licensing, 50% have been attributed to first wave occupations, with 28% of these costs allocated to property occupations.

**Table 5 Transition impacts in Queensland**

<b>Cost</b>	<b>Undiscounted (\$m)</b>	<b>10-year NPV (\$m)</b>
Time for licensees to understand reforms	2.45	2.29
Business value-add	0.82	0.76
Licensing authority – set up costs	0.27	0.26
National licensing register – jurisdictional implementation	0.70	0.65
Government communications	0.33	0.30
<b>Total transitional and implementation costs</b>	<b>4.57</b>	<b>4.28</b>

#### **4.1.2 Administrative cost savings**

The DRIS also considers the potential benefits from reducing administration costs by streamlining policy functions under national licensing. While noting that stakeholders have expressed doubts regarding the extent to which these savings are likely to be achieved, the DRIS referenced analysis conducted by PricewaterhouseCoopers (PwC) in 2009 to provide an indicative estimate of this cost saving.

The PwC analysis considered the resource requirements for jurisdictional regulators across the seven occupation groups and estimated the proportion of these required for policy functions that are to be conducted by NOLA. This analysis found a cost saving for property occupations of \$15.9 million in PV terms. It is important to note that this estimate represents only a potential benefit to government and was not included in the estimated impact of national licensing.

The DRIS also identifies potential administrative cost savings from reductions in:

- the resources required to maintain ministerial declarations under the *Mutual Recognition Act 1992* and to update the information contained in the declarations; and
- the complexity of information that will need to be communicated on licensing requirements, due to the simplified arrangements under national licensing and the inclusion of a national licensing register.

## **4.2 Stakeholder views**

### **4.2.1 Transition and implementation costs**

In the opinion of stakeholders, the cost estimates set out in the DRIS are not a reasonable representation of the costs that will be incurred in implementing and transitioning to national licensing for property occupations. The two key points raised by stakeholders were:



- significant costs will need to be incurred in harmonising, managing and maintaining databases and IT systems. The OFT noted that this cost will be exacerbated for Queensland due to the lack of consistency between the current licence database in Queensland and the national database; and
- the time that will be required for current licence holders to understand the new licensing arrangements has been significantly underestimated in the DRIS.

#### **4.2.2 Administrative cost savings**

Stakeholders raised two issues regarding the potential administrative cost savings discussed in the DRIS:

- the savings attributed to the streamlining of policy functions are unlikely to be realised; and
- the DRIS has only considered potential savings while ignoring the costs associated with the adverse consequences of national licensing.

In relation to the first of these points, the OFT noted that the proportion of staff resources currently associated with policy functions is minimal, so that streamlining these functions is unlikely to result in a material cost saving. Furthermore, there are several areas of work that are currently licensed in Queensland that will not be regulated under national licensing. It is likely that these areas of work will continue to be licensed in Queensland (while being unlicensed under the national system), which will require there to be some resources dedicated to policy functions, even after the introduction of NOLA.

Some stakeholders were also of the view that national licensing would result in adverse consequences, particularly in relation to consumer outcomes. Stakeholders argue that these consequences and the flow-on impacts on other industries, including increases to the cost of insurance and legal services, were not considered in the DRIS.

### **4.3 Analysis**

Based on the significance of the cost estimates in the DRIS and the outcomes from stakeholder consultation, analysis of the cost impacts of national licensing was limited to:

- time required for licensees to understand reforms
- NOLA set-up and IT costs
- administrative cost savings.

#### **4.3.1 Time required for licensees to understand reforms**

The time required for licensees to understand the reforms accounts for 53.5% of the total estimate for transition and implementation costs in the DRIS. In the Consultation RIS, the assumption was adopted that licence holders will require 45 minutes to understand the reforms. This estimate was subsequently increased to 90 minutes in the DRIS.

As noted in the DRIS, the time that licence holders will require to understand the reforms will vary considerably:<sup>11</sup>

The estimate of 90 minutes takes into consideration the varying needs of licence holders when they transition to a national licence.

...

For some licence holders, changes may be more complex and require more time; for others, changes would be minimal and require less.

In justifying the estimate adopted, the DRIS noted that:

- licence holders would not be required to change their licence before the expiration of their current licence; and
- the 90 minute estimate reflects the additional time required over and above the normal requirements for licence renewal.

At the stakeholder consultation session, it was considered that licence holders would require considerably longer than 90 minutes to understand the reforms. However, no information was provided by stakeholders to support this view. While it is noted that some licence holders will require considerably longer than 90 minutes to understand the reforms, there are also licence holders that will require less than 90 minutes, as the reforms will have very little (if any) impact on them.

In assessing the appropriateness of the DRIS estimate, it is also important to note that the arrangements under national licensing for Queensland are likely to be more complex than in some other jurisdictions given that several areas of work that are licensed in Queensland will not be regulated under national licensing.

While there is the potential for the time that will be required for licence holders to understand the reforms to be greater than the 90 minutes allowed for in the DRIS, there is not considered to be sufficient information available to determine an alternative cost

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<sup>11</sup> NLSC (2013), 67-8.

estimate. The estimate included in the DRIS is subsequently considered to be reasonable.

#### 4.3.2 NOLA set-up and IT costs

The DRIS estimated the one-off cost of setting up NOLA and a national licensing register attributable to property occupations in Queensland at approximately \$0.97 million.<sup>12</sup> The OFT has advised that this estimate significantly understates the costs that will be incurred as a result of having to transition to national licensing.

The DRIS has not taken into account the significant task that is required in order to achieve alignment between the current database and IT systems used by the OFT and the database and systems that are to be used under national licensing. The OFT has established a project to enable this transition to be made for property occupations in Queensland. The budget for this project is set out in Table 6. The estimates in this table are based on OFT's best estimate based on known factors as they currently stand. While a budget has been estimated for the project, no definite funding source has been identified.

**Table 6 Database and IT costs of transitioning to national licensing**

Cost item	2013/14 (\$)	2014/15 (\$)
Salaries	1,151,514	282,186
Capital – Marketplace Accreditation and Compliance System database development	660,000	-
Contractors/consultants	331,953	-
Communications	105,900	-
<b>Totals</b>	<b>2,249,367</b>	<b>282,186</b>

Source: Data provided by OFT.

In NPV terms, this results in a cost of \$2.35 million of transitioning the current database and IT systems to national licensing.<sup>13</sup>

In addition to these implementation costs, the OFT has also estimated that the ongoing operating costs under national licensing will be greater than has been estimated in the DRIS. Initially, the OFT advised the NLSC that the ongoing costs associated with receiving and processing licence applications would be \$40,000 per annum. However, based on further analysis, the OFT has advised that the ongoing cost under national licensing is more likely to be approximately \$120,000 per annum. The difference

<sup>12</sup> This includes \$0.27 million for the establishment of NOLA and \$0.7 million for the costs to be incurred by jurisdictions in implementing a national licensing register.

<sup>13</sup> It should be noted that in 2012/13 approximately \$500,000 was expended on this project.

between these estimates is primarily due to the requirement for a web-based system to be used to enable the OFT system to communicate with the NOLA database. Subsequently, in addition to the ongoing costs included in the DRIS, there will be an additional \$80,000 per annum attributable to property occupations in Queensland. This corresponds to a 10-year NPV estimate of \$0.56 million, bringing the total cost to Queensland of transitioning to national licensing to \$2.91 million in PV terms.

#### **4.3.3 Administrative cost savings**

Stakeholders at the consultation session expressed doubts over the extent to which administrative cost savings will be achieved as a result of the introduction of national licensing. It is considered highly unlikely that national licensing will result in a net reduction in administration costs for property occupations, given the following factors:

- jurisdictional regulators are to maintain their role in relation to the issuing of licences as well as conducting compliance and enforcement activities and overseeing conduct requirements; and
- ongoing costs will be required to maintain alignment between the jurisdictional and national systems and databases.

However, it is noted that the estimate included in the DRIS is only a potential benefit and has not been included in the quantitative impact assessment of national licensing.

## **4.4 Conclusion**

The conclusions from the analysis of the cost impacts of national licensing in the DRIS are:

- the DRIS estimate that the average licence holder will require 90 minutes to understand the reforms is considered acceptable, noting that several stakeholders have advised that licence holders will require more time to understand the reforms, although no evidence has been provided by stakeholders to support this position;
- the estimate of \$0.65 million included in the DRIS for the cost of implementing a national licensing register allocated to Queensland is understated. Based on an updated cost analysis undertaken by the OFT, the cost could be up to \$2.91 million (in PV terms); and
- it is highly unlikely that the potential administration cost savings discussed in the DRIS will be realised.

The estimates for the other cost categories included in the DRIS are considered reasonable. Table 7 compares the revised cost estimates to the estimates in the DRIS.

**Table 7 Revised transition impacts for Queensland**

<b>Cost</b>	<b>DRIS 10-year NPV (\$m)</b>	<b>Revised 10-year NPV (\$m)</b>
Time for licensees to understand reforms	2.29	2.29
Business value-add	0.76	0.76
Licensing authority – set up costs	0.26	0.26
National licensing register – jurisdictional implementation	0.65	2.91
Government communications	0.30	0.30
<b>Total transitional and implementation costs</b>	<b>4.28</b>	<b>6.52</b>

## **5 Maximum licence period**

### **5.1 Position in DRIS**

The DRIS proposes that licences be granted for a period of one, three or five years, with the licence period to be selected by the applicant. This provides the applicants with the flexibility to choose a licence period that suits their individual arrangements. Under the current arrangements, licence periods range from one year to perpetual, with Queensland offering one and three year licences.

The benefits of allowing longer licence periods are:

- reduced costs to licensees of renewing licences (time and the application processing component of the renewal fee); and
- reduced costs to jurisdictions of processing licence applications.

The DRIS noted that assuming that all licence holders will adopt the maximum licence period of five years would overestimate the benefit of increasing the maximum licence period as not all licence holders will opt for this period. The DRIS also notes that the largest financial benefit would be obtained by increasing the maximum licence period to a longer period or allowing perpetual licences.

However, longer licensing periods will reduce the accuracy of licensees' contact details on the public register, which enable the regulator to:

- remove records for those licensees no longer practising; and
- monitor and perform periodic checks on licence holders to ensure that currency of requirements such as personal and financial probity are maintained.

The DRIS concluded that the cost savings to licensees from not having to renew their licence as often exceeded the benefit of a more accurate public register.

Given the uncertainty regarding the extent to which licensees will move to the maximum licence period of five years, the DRIS estimated the benefit under several scenarios, including licence periods of three, five and ten years, and perpetual licences. As the maximum licence period in Queensland is three years under the current arrangements, there was no benefit under the scenario with a maximum licence period of three years for Queensland. The benefit to Queensland of increasing the maximum licence period to five years was estimated at \$1.645 million per annum, with a 10-year PV of \$10.7 million. The national benefit under this scenario was estimated at \$52.03 million in PV terms.

## 5.2 Stakeholder views

Through submissions on the Consultation RIS and the consultation session with Queensland stakeholders, the key issues raised by stakeholders in relation to the maximum licence period under national licensing were:

- stakeholders' views were fairly evenly distributed between one, three and five years as the appropriate length for licence periods;
- the benefit estimated in the DRIS for Queensland overstates the benefit of increasing the maximum licence period as:
  - not all licence holders in Queensland choose to adopt the maximum licence period under the current arrangements, with a significant proportion of licensees renewing annually;
  - only a proportion of those licence holders with three year licences under the current arrangements would choose to adopt a five year licence period under national licensing; and
- there are likely to be increased compliance monitoring costs for the OFT under a five year licence period due to the increased difficulty associated with undertaking probity and competency checks as a result of the increased time between licence renewals.

## 5.3 Analysis

The DRIS has estimated the benefit of increasing the maximum licence period based on all licence holders applying for a five year licence. The DRIS notes that this is likely to represent an overestimate of this benefit:<sup>14</sup>

These figures would represent a potential overestimate as there will be a variety of reasons why a licensee may not wish to avail themselves of the savings that might be presented should they opt for the longer period.

This is supported by stakeholders, who suggested that only a proportion of licensees currently opt for a three year licence and only a portion of these licence holders would choose a five year licence period under national licensing.

The OFT has provided data on the breakdown of licence holders in 2012/13 by category and by licence period (i.e. one year or three years). The OFT data also includes the fee for licence renewals. This data has been combined with some of the key

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<sup>14</sup> NLSC (2013), p 76.

assumptions adopted in the DRIS to estimate the benefit to Queensland of increasing the maximum licence period to five years.

The first step is to identify the licence holders that currently hold three year licences. Licensees that renew their licences annually under the current arrangements will be excluded from the analysis as none of these licence holders will choose a five year licence under the national system (given that none of these licensees currently choose a three year licence over a one year licence). According to OFT data, 7,438 licence applications for three year licences were received in 2012/13.<sup>15</sup> This has been multiplied by three to provide an estimate of the total number of three year property licences currently effective in Queensland - 22,314. This compares to 17,311 applications relating to one year licences.

Table 8 presents a breakdown of these three year licences by category, in addition to the licence renewal fee and the proportion of the licence renewal fee that is attributable to the application processing component (based on an assumption adopted in the DRIS).

**Table 8 Breakdown of three year licences, renewal fees and cost of processing**

Licence category	No. 3-yr licences	3-yr renewal fee (\$)	Fee attributable to processing (\$) <sup>a</sup>
Corporate licences	4,515	869.00	243.32
Auctioneer	633	1,634.00	457.52
Property Developer	315	1,634.00	457.52
Pastoral House	6	1,136.50	318.22
Real estate	5,781	1,634.00	457.52
Restrict. Letting Agent	972	1,634.00	457.52
Real Estate/Property Develop Sales	10,044	331.50	92.82
Trainee auctioneer	48	331.50	92.82

<sup>a</sup> The assumption used in the DRIS that 28% of the fee for licence renewals are attributable to the application processing component has been applied to determine these estimates.

**Note:** The number of three year licences for each category has been calculated by multiplying the number of application received in 2012/13 for each category by three.

**Source:** OFT data.

As previously discussed, not all three year licence holders will choose to apply for a five year licence under national licensing. It has been assumed that 75% of these licence holders in each category will apply for the longer licence period. Table 9 shows the annual savings for the licence holders that will apply for five year licences under the national system based on this assumption. The annual processing costs are calculated by applying the fees attributable to processing from Table 8 to the number of licences

<sup>15</sup> This includes renewals, applications, re-instatements and restorations.



in each category and dividing this cost by three years and five years respectively. The difference between the two cost estimates represents the annual saving attributable to the increased maximum licence period.

**Table 9 Annual savings from reduced application processing costs**

Licence category	No. 5-yr licences <sup>a</sup>	Annual cost under 3-yr licence (\$)	Annual cost under 5-yr licence (\$)	Annual cost saving (\$)
Corporate licences	3,161	256,378	153,827	102,551
Auctioneer	475	72,441	43,464	28,977
Property Developer	236	35,992	21,595	14,397
Pastoral House	5	530	318	212
Real estate	4,336	661,269	396,761	264,508
Restrict. Letting Agent	729	111,177	66,706	44,471
Real Estate/Property Develop Sales	7,533	233,071	139,843	93,228
Trainee auctioneer	36	1,114	668	446
<b>Totals</b>	<b>16,511</b>	<b>1,371,972</b>	<b>823,183</b>	<b>548,789</b>

<sup>a</sup> Calculated at 75% of three year licences under current arrangements.

**Note:** Numbers may not add due to rounding.

**Source:** OFT data.

There is also a benefit from increasing the maximum licence period associated with the cost of time of licence renewal. This benefit has been estimated using inputs in the DRIS in relation to the time required to renew a licence (assumed to be 42 minutes in Queensland) and the wage rate (\$41.92/hour).<sup>16</sup> This means that the cost associated with the time required for each licence renewal is \$29.34. Applying this cost estimate to the number of five year licences under the national system results in the following estimates:

- an annual cost of time with a three year licence renewal period of \$161,478
- an annual cost of time with a five year licence renewal period of \$96,887
- an annual cost of time saving from increasing the maximum licence period of \$64,591.

This cost saving is added to the annual cost saving from the reduction in application processing costs to arrive at a total estimate of \$613,380 for the annual benefit of increasing the maximum licence period to five years for Queensland. In PV terms, this equates to a benefit of \$4.3 million over the 10 year period.

<sup>16</sup> The Queensland hourly cash earnings estimate in the DRIS is \$23.60 as of May 2010. A multiplier of 1.693 was applied to this estimate to account for on-costs and overheads. The resulting estimate was then inflated at 4.91%. These are consistent with the assumptions adopted in the DRIS.

## **5.4 Conclusion**

The benefit to Queensland from increasing the maximum licence period to five years has been estimated at \$4.3 million in PV terms. This estimate, which is based on OFT data and applying the same assumptions as in the DRIS, is a significant reduction from the \$10.7 million benefit estimated in the DRIS. The difference between these estimates is explained by the fact that the DRIS estimate is based on all licence holders applying for five year licences, when under the current arrangements, a significant proportion of Queensland licence holders (approximately 44%) prefer to renew their licences annually rather than holding three year licences.

## 6 Changed qualifications and CPD

### 6.1 Position in DRIS

The national licensing system involves key changes to the requirements imposed on licence holders in relation to:

- qualification requirements to become a licence holder
- CPD requirements of licence holders.

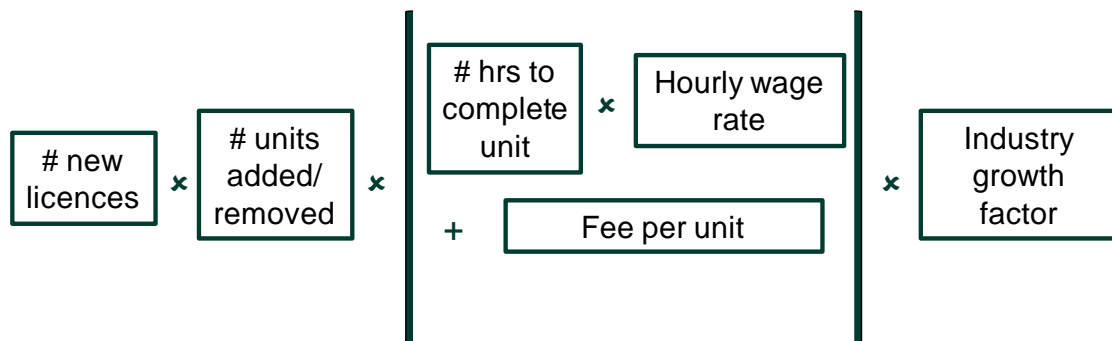
Changed qualification requirements is one of the most significant impacts of national licensing on Queensland stakeholders in the DRIS. The changed qualification requirements will only apply for new licence applicants and will not affect existing licence holders.

CPD changes do not impact Queensland. Analysis of the CDP has been included due to the significance of the national benefit estimated from removing mandatory CPD and the strong views expressed by Queensland stakeholders in relation to CDP.

#### 6.1.1 Changes to qualification requirements

Figure 1 shows how the impact of changed qualification requirements under national licensing were estimated in the DRIS.

**Figure 1 Approach to calculating impact of changed qualification requirements**



The key assumptions applied to quantify the impact of the changed qualification requirements are:

- the number of new licence applicants each year is assumed at 5.166% of existing licence holders in each category;
- 31 hours required to complete a single unit of competency;

- an hourly wage rate for Queensland of \$24.76;<sup>17</sup>
- an industry growth factor for the property sector of 1.728% per annum; and
- a real discount rate of 7%.

The proposed changes to qualification requirements and the impacts for Queensland licence holders estimated in the DRIS are detailed for each licence category in the following sections.

#### *Real estate agents*

The DRIS notes that the qualification requirements for real estate agents vary considerably across jurisdictions. In Queensland, applicants are currently required to complete 19 units of a Certificate IV in order to be eligible for a real estate agent licence. Under national licensing, applicants will need to complete all 24 units of a Certificate IV.

This means that prospective real estate agents in Queensland will need to incur an additional cost associated with completing the five additional units. This includes the cost of undertaking the additional units (i.e. fees paid) and the cost of time required to complete the additional units. The DRIS estimates the annual ongoing cost at \$430,000, which has a 10-year PV of \$2.77 million.

#### *Agent's representatives*

The DRIS proposes that the qualification requirement for an agent's representative be set at four units of the CPP07 Property Services Training Package. Under current arrangements, agent's representatives in Queensland are required to complete seven units of competency.

This reduction in qualifications requirements will reduce the cost to applicants. However, the DRIS notes that if employers still require prospective employees to complete the qualifications or replace the qualifications with on-the-job training, the actual benefit would be less than estimated.

The reduced qualification requirements for agent's representatives in Queensland was estimated to be \$4.32 million per year, which has a 10-year PV of \$28.1 million.

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<sup>17</sup> This is based on the May 2010 wage rate of \$23.60 per hour inflated by 4.91%. The on-costs and overheads multiplier was not applied to this estimate for the quantification of these impacts.

### *Auctioneers*

Real estate auctioneers will be required to complete three units of competency to obtain an auctioneers' licence under national licensing. Queensland currently requires five units of competency and the completion of five auctions under supervision as a trainee auctioneer. This means that applicants for an auctioneers' licence in Queensland will benefit from having to undertake two less units of competency to obtain their licence in addition to no longer being required to undertake five supervised auctions. The annual benefit was estimated at \$0.2 million, which has a 10-year PV of \$0.15 million.

### *Business agents*

The national licensing system proposes that a separate licence category be established for business agency work. This area of work is currently regulated under the real estate agency licence in Queensland. A separate licence category will therefore need to be created for agents performing business work in Queensland. The DRIS notes that while agents undertaking both real estate and business sales will need to hold two licences under national licensing, the cost associated with this requirement will be minimised by enabling licence holders to apply for the two licences through one application. The administrative cost associated with these arrangements (both for agents and government) is subsequently expected to be minimal.

Licensed real estate agents that wish to apply for a business agent's licence will have to complete an additional unit of competency.<sup>18</sup> It was estimated that 2.5% of real estate agents also perform business agency work. The additional cost was estimated to have a PV of \$0.25 million.

## **6.1.2 Continuing professional development**

Some jurisdictions require mandatory annual CPD. The purpose of mandatory CPD is to ensure that licence holders are trained to respond to emerging industry and consumer issues. Mandatory CPD requirements currently apply in New South Wales, Western Australia, Tasmania and the Australian Capital Territory. Queensland has no mandatory CPD requirement.

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<sup>18</sup> It is noted that the DRIS proposes to establish a new unit under national licensing for business agency work. This unit is to cover legal and ethical requirements of business sales and acquisitions to complete agency work. While the analysis has been limited to the one additional unit requirement that will initially be imposed on licence holders, it is noted that the introduction of this additional unit will impose a further requirement on licensees.

During the policy development process, the majority of Interim Advisory Committee (IAC)<sup>19</sup> members did not support the inclusion of mandatory CPD requirements as part of a national licensing system. While there was strong support for CPD in general, the IAC considered that mandatory requirements imposed on licence holders would result in an additional unwarranted cost being imposed on the property industry as CPD would not always be designed to accurately address industry issues and consumer risks.

NOLA has advised that CPD will continue under national licensing, however, unlike a fixed hours system as applies in some jurisdictions, CPD will be more flexible and targeted, with NOLA identifying CPD requirements deemed necessary to respond to emerging industry and consumer issues. NOLA considers this to be a more cost-effective approach that will relieve the inefficiencies that currently exist in some jurisdictions which impose mandatory CPD requirements on licensees without having regard to the need or value of training.

The DRIS concluded that given the substantial cost of mandatory CPD and the limited evidence available of its effectiveness, mandatory CPD will not be included in the eligibility requirements of the national licensing system. The total annual benefit from the removal of mandatory CPD requirements was quantified at \$37 million. None of the benefit occurs in Queensland because CPD is not mandatory.

## **6.2 Stakeholder views**

### **6.2.1 Changes to qualification requirements**

The majority of submissions on the Consultation RIS did not comment on the issue of qualification requirements under national licensing. In general, the Real Estate Institutes propose that entry level qualifications be set at the highest qualification applying in any jurisdiction. The Institutes consider this appropriate in order to protect consumers and achieve industry professionalism.

REIQ is proposing significant increases in the level of qualifications required for real estate agents, with applicants required to complete an additional seven units of competency relating to business management. This is based on the view that problems arising in the industry are largely the result of inexperience and insufficient training.

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<sup>19</sup> The IACs were the NLSC's primary source of advice for occupational regulations, with an IAC established for each occupational area. Each IAC has an associated Regulator Working Group (RWG).

REIQ expressed concern about the ongoing viability of real estate agencies and considers the additional competencies to be necessary to improve the viability and sustainability of businesses in the property sector. REIQ and the Property Sales Association of Queensland (PSAQ) acknowledge that this would impose costs on the property sector but consider it necessary in order to avoid adverse outcomes for businesses and consumers. REIQ also provided anecdotal evidence that insurance companies are struggling to deal with claims of professional indemnity against real estate agents in Queensland. REIQ estimates that it incurs costs of \$0.5 to \$0.75 million per annum in dealings with real estate agents because agents lack the necessary knowledge and qualifications.

Stakeholders also expressed concerns over the standard of the training being delivered by Registered Training Organisations (RTOs), with several stakeholders stating that the standard of the qualifications obtained from these organisations was well below what should be required.

### **6.2.2 Continuing professional development**

REIQ has expressed strong support for the inclusion of mandatory CPD requirements in a national licensing system. While it acknowledges that this will impose additional costs on the property sector, the REIQ views this as being necessary in order to ensure that licensees' capabilities are maintained to the necessary level. REIQ requires its members to complete CPD requirements on an annual basis and is of the view that there is a significant gap in the knowledge between REIQ and non-REIQ members, largely due to the lack of CPD that is undertaken by non-REIQ members.

While acknowledging that large companies in the property sector do require licence holders to undertake periodic training, REIQ has advised that this training is mostly based on internal business systems and practices rather than focusing on industry and consumer issues.

According to REIQ, the savings that would be achieved from removing mandatory CPD would be exceeded by the costs associated with the adverse consequences of less informed licensees. These costs include:

- reputational damage to agency staff and business;
- loss of agency client base;
- compliance monitoring and enforcement costs associated with increased consumer complaints;
- costs imposed on consumers due to adverse dealings with agents; and

- increased legal costs.

REIQ provided data in support of its position which show that since 1 July 2012, there have been 38 trust account-related prosecutions in Queensland, 36 of which have involved real estate business operators who are not REIQ members (and are therefore not required to undertake CPD). Trust account breaches constitute some of the most serious breaches of the *Property Agents and Motor Dealers Act 2000*.

REIQ also referred to experience in Western Australia, where mandatory CPD was introduced for licensees in 2007 and for sales representatives in 2009. In the five years up to and including 2009, the Real Estate Institute of Western Australia (REIWA) received an average of 143 written complaints per year. For the three years to 2012, this average has fallen to 55 per annum, a 61.5% reduction. REIQ submits that this demonstrates the importance of mandatory CPD and the potential for these requirements to significantly improve outcomes for business and consumers in the property sector.

## **6.3 Analysis**

### **6.3.1 Changes to qualification requirements**

As discussed in section 6.2.1, stakeholders' views regarding the proposed qualification requirements under national licensing are focused on the level of qualifications as opposed to the impacts quantified in the DRIS. Stakeholders, in particular REIQ and the PSAQ, believe that the inadequacy of the current qualification, and the lack of mandatory CPD, is imposing significant costs on businesses and consumers.

The appropriate qualification for licence holders is a separate issue to national licensing. While we are not qualified to assess this issue, we are able to make the following observations:

- there is a strong view among several key stakeholders in the Queensland property sector that current qualification requirements are not set at the appropriate level to ensure efficient outcomes for consumers and businesses;
- we have been provided with anecdotal evidence to suggest that the training currently being provided by RTOs fall below the current standard; and
- based on a review of training programs in the Queensland property sector, there does not appear to be a significant time requirement for obtaining the necessary qualification requirements. For example, an applicant can obtain a real estate agent licence from REIQ after completing 12.5 days of training.



Based on the above, it is questionable as to whether increasing the level of qualification requirements, as is proposed by REIQ and PSAQ, would have a material impact on the conduct of licence holders in the Queensland property sector, Assessing the quality of training provided by RTOs is a potential area of focus for future reform.

Our analysis is limited to assessing the appropriateness of the impacts quantified in the DRIS, based on the proposed qualification requirements under national licensing.

The methodology used to estimate the impact of changes to qualification requirements is considered appropriate. We applied the methodology and assumptions but were unable to replicate the impacts reported in the DRIS.

The assumptions applied in the DRIS are reasonable with the exception of the number of hours required to complete a unit of competency and the fees per unit of competency. The DRIS assumes that the completion of a single unit of competency requires 31 hours. This is not consistent with the advice provided by stakeholders.

In calculating alternate estimates for the impact of the proposed changes to qualification requirements, information from the REIQ website has been used to determine the appropriate estimates for the number of hours required per competency and the fee per unit of competency. Table 10 provides an overview of the inputs for three licence categories (business agency is not currently a separate licence category in Queensland).

**Table 10 Hours and fees required per unit by licence category in Queensland**

Licence category	No. Units	Total hours req.	Hours/unit	Total fee <sup>a</sup>	Fee/unit
Real estate	19	12.5 days (100 hours)	5.26	\$2,350	\$123.70
Agent's representative	7	4 days (32 hours)	4.57	\$620	\$88.60
Auctioneer	5	5.25 days (42 hours)	8.4	\$1,025	\$205

<sup>a</sup> Calculated by averaging the fees for REIQ members and non-members.

**Note:** As there is not currently a licence category for business agency work in Queensland, the hours and fees per unit for the real estate licence category have been applied to estimate the impacts of changed qualification requirements for business agency work.

**Source:** REIQ – Nationally Recognised Real Estate Courses. DOA: 5 September 2013. [http://institute.reiq.com/REIQ/Careers/Nationally\\_recognised\\_real\\_estate\\_courses/REIQ/Careers\\_\\_\\_Training/Real\\_estate\\_courses.aspx?hkey=a7639809-1727-45fe-9af4-135762802563](http://institute.reiq.com/REIQ/Careers/Nationally_recognised_real_estate_courses/REIQ/Careers___Training/Real_estate_courses.aspx?hkey=a7639809-1727-45fe-9af4-135762802563).

Table 11 shows our estimated impacts for the proposed changes to the qualification requirements for each licence category.

**Table 11 Impacts of proposed changes to qualification requirements on Queensland licensees**

Licence category	# new applicants (base year) <sup>a</sup>	Change in units	10-year PV
Real estate	948	+5	(\$9,053,000)
Agent's representative	928	-3	\$4,228,000
Auctioneer	105	-2 <sup>b</sup>	\$650,000
Business agent	24	+1	(\$45,000)

**a** Annual growth factor of 1.7166% has been applied as was the case in the DRIS. Number of new applicants in base year calculated by applying DRIS assumption of 5.166% of existing applicants per annum and number of licence holders in each category as per DRIS.

**b** The proposed national licensing system also includes the removal of the requirement for auctioneers to undertake five supervised auctions as trainees. This analysis has not estimated the cost saving associated with removing this requirement.

**Note:** Overall increase in cost is shown in brackets.

**Source:** Synergies modelling.

### 6.3.2 Continuing professional development

While we acknowledge the anecdotal evidence of the effectiveness of mandatory CPD provided by REIQ based on complaints data from Western Australia, we have not been provided with sufficient information to assess the appropriateness of the inclusion of mandatory CPD requirements in the national licensing system. This would require an in-depth analysis of:

- complaints data across jurisdictions, including the factors that lead to complaints and the magnitude of the consequences of complaints; and
- the cost of mandatory CPD requirements imposed on licensees.

While the high level complaints data provided by REIQ does show a decline in the number of customer complaints against property agents in Western Australia over time, it is not possible without further analysis to determine the extent to which this attributable to mandatory CPD or whether a similar impact would be observed in Queensland or other jurisdictions.

NOLA has provided comparative data on complaints made against property agents by jurisdiction. Table 12 presents this data for complaints made as a proportion of licensees by jurisdiction based on 2011/12 data.

**Table 12 Complaints against property agents as a proportion of licensees by jurisdiction**

	NSW	VIC	WA	SA	TAS	ACT
Complaints as % licensees	5.8%	2.6%	8.4%	2.9%	19.6%	3.5%

**Note:** Data was not available for Queensland or the Northern Territory.

**Source:** Data provided by NOLA.

This table shows that the jurisdictions where mandatory CPD currently applies (Tasmania, Western Australia and New South Wales) recorded the highest number of complaints as a proportion of licensees. On the other hand, Victoria and South Australia, which recorded the lowest number of complaints, do not impose mandatory CPD requirements on licensees.

It is also noted that NOLA has stated that more flexible and targeted CPD will be a feature under national licensing. NOLA considers this to be a more cost-effective approach that will relieve the inefficiencies that currently exist in some jurisdictions which impose CPD requirements on licence holders without having regard to the need or value of training.

It is important to note that to the extent that NOLA does implement CPD on an as-required basis under national licensing, the benefit estimated in the DRIS associated with the removal of mandatory CPD will be reduced. While this does not impact on Queensland, the national estimate for this cost saving is significant, with the DRIS reporting a 10-year PV of approximately \$240.5 million.

### 6.3.3 Business value-add

In addition to the benefits to licensees attributable to the time savings under national licensing, the DRIS also includes a benefit to businesses. This business value-add benefit was estimated at one-third of the net efficiency benefit to licensees which equals a business value-add benefit of \$13.61 million per annum or \$80.48 million in PV terms. For Queensland, the annual business value-add benefit was estimated at \$1.34 million with a 10-year PV of \$8.74 million.

The business value-add benefit in the DRIS is contingent on the net efficiency benefit attributable to licensees as a result of time savings achieved from the increase to the maximum licence period and changed qualification requirements. As demonstrated in sections 5.3 and 6.3.1, our analysis of the impacts of national licensing does not find an overall net efficiency benefit for Queensland licensees in these two areas. For this reason no business value-add benefit for Queensland should be included in the assessment.

## 6.4 Conclusion

As stated in section 6.3.1, while the methodology used in the DRIS to estimate the impact of changes to qualification requirements is considered appropriate, we have not been able to replicate the estimates in the DRIS. We have modelled alternate impacts of the changes to qualification requirements using:

- the approach as described in the DRIS;
- the assumptions used in the DRIS (with the exception of the fee per unit and time required to complete a unit); and
- information obtained from the REIQ website on the time and fees required per unit of competency.

Table 13 compares the DRIS estimate of the impact of qualification requirements for each of the major licence categories with our estimates. It is noted that, even removing the impact of the different assumptions for time and fees required per unit of competency, the alternate estimates differ significantly from those included in the DRIS. We have not been able to explain this difference.

**Table 13 DRIS and alternate estimates of impact of changed qualification requirements (PV terms)**

Licence category	DRIS estimate for Queensland	Synergies estimate for Queensland
Real estate	(\$2.77 million)	(\$9.05 million)
Agent's representative	\$28.1 million	\$4.23 million
Auctioneer	\$0.15 million	\$0.65 million
Business agent	(\$0.25 million)	(\$0.05 million)
<b>Total</b>	<b>\$25.23 million</b>	<b>(\$4.22 million)</b>

Source: Synergies modelling.

Our analysis finds a net cost of \$4.22 million to Queensland licensees compared with a \$25.23 million benefit.

In relation to the issue of mandatory CPD:

- no evidence has been provided indicating that mandatory CPD is cost-effective and should be included as a feature in a national licensing system; and
- to the extent that CPD is to be required under national licensing by NOLA on an as-required basis, this will reduce the national benefit of removing mandatory CPD requirements that was estimated in the DRIS, noting that none of this benefit will accrue to Queensland licence holders.

As it is estimated that the net impact of the changed qualification requirements and increase to the maximum licence period will increase the costs imposed on Queensland

licence holders, it is not considered that any business value-add benefit should be included in the impact assessment. The 10-year PV of this benefit to Queensland was estimated at \$8.74 million in the DRIS.

## **7 Exemptions**

### **7.1 Position in DRIS**

It is an offence for an individual or business entity to undertake regulated work unless that individual or business entity holds a licence or is exempt under the national law. Exemptions are only applied when it is considered that the benefit of the exemption outweighs the costs associated with the increased risk to consumer outcomes.

The DRIS proposes that the national licensing system include the following three exemptions:

- non-residential property transactions with a value of over \$10 million or that relate to property with an area of greater than 10,000 sqm;
- a person carrying out regulated work that consists only of leasing residential property for less than three months (i.e. short-term resident managers); and
- non-residential property transactions between related entities.

The impacts of including these exemptions have not been quantified directly. The DRIS notes that the scope of the exemptions was developed through extensive stakeholder consultation.

### **7.2 Stakeholder views**

Stakeholders expressed general support for the proposed exemptions in response to the Consultation RIS, with a small number of submissions expressing the concern that the exemptions are too broad.

The Shopping Centre Council of Australia (SCCA) strongly supports the proposed exemptions and noted that regulating large non-residential property transactions under national licensing would impose significant and unnecessary costs on commercial property managers in Queensland – estimated at \$2.6 million per annum. The SCCA noted that these transactions take place between sophisticated market participants that do not require the protection against adverse outcomes that is provided by national licensing. REIQ and the Union expressed the view that any individual or business operating in the property industry should be required to hold a licence.

The main area of concern for stakeholders is the exemption for resident managers. Stakeholders are of the view that there are a high number of trust account-related prosecutions attributable to this part of the market and that not regulating this activity

could have significant adverse consequences for consumers and also the government through increased compliance monitoring and enforcement costs. It was also noted that while the proposed exemption is to only apply to lettings of under three months, these resident managers can potentially hold significant amounts of money in forward transactions.

### **7.3 Analysis**

In relation to the exemptions for non-residential property transactions exceeding \$10 million or 10,000 sqm and for transactions between related entities, there is no evidence available that not regulating these transactions will have adverse consequences on the parties involved. As is noted in the DRIS, these exemptions are supported by the majority of stakeholders and the impact on costs is expected to be relatively minimal.

As noted above, several stakeholders have expressed concern over the exemption for short-term resident managers. While these concerns are noted, no evidence has been provided of the adverse consequences and additional cost impacts of the proposed exemption. Furthermore, short-term letting is not regulated in any jurisdiction other than Queensland and New South Wales and, as has been noted in the DRIS, there is no evidence of any difficulties in these other jurisdictions. There is subsequently no basis to conclude that the proposed exemption is inappropriate.

### **7.4 Conclusion**

There is no evidence to suggest that any of the three proposed exemptions are inappropriate or that they would impose material costs on consumers or businesses in the property sector. As stated in the DRIS, the cost impact of these exemptions is considered to be minimal, due to the relatively small number of transactions in these segments of the market.

## 8 Conclusion

The preceding sections presented Synergies' review of the DRIS on the proposed implementation of a national licensing system for property occupations. The analysis focused on those impacts of significance to Queensland, based on a review of the DRIS, stakeholder submissions and the outcomes of the stakeholder consultation with major participants in the Queensland property sector.

The key conclusions from this review are:

- the labour mobility benefit, which accounts for 52% of the total benefit to Queensland, is significantly overestimated in the DRIS, due to the lack of consideration for industry-specific factors and the limitations they place on the mobility of labour. While it is uncertain that there will be any material labour mobility benefit from national licensing, the lower bound estimate in the DRIS (10-year PV of \$9.74 million for Queensland) is recommended as the alternative estimate;
- the transition and implementation costs of national licensing are underestimated in the DRIS due to the failure to include the full costs associated with transitioning to national IT systems and licence databases. An alternative cost estimate has been developed based on advice provided by the OFT;
- it was not possible to replicate the impacts of changed qualification requirements presented in the DRIS with the information available. Alternative estimates were developed by applying the approach and the assumptions (excluding the fee and time required per unit of competency) set out in the DRIS. This resulted in the calculation of a net cost to Queensland as a result of changed qualification requirements of \$4.22 million (in PV terms), compared to a net benefit in the DRIS of \$25.23 million;
- the benefit to Queensland from increasing the maximum licence period to five years is significantly overestimated in the DRIS. This is due to the DRIS assuming that all licence holders will apply for five year licences. A significant proportion of current licence holders renew their licences annually. Data from the OFT on the number of one year and three year licences has been used to develop an alternative estimate for this benefit of \$4.3 million in PV terms (compared to the \$10.7 million estimated in the DRIS); and
- the DRIS includes a business value-add benefit of \$8.74 million in Queensland (in PV terms). This benefit is based on the time savings to licensees as a result of changes to requirements relating to qualifications, CPD, etc. Our analysis shows that these time savings will not accrue to Queensland licence holders and there is



subsequently no business value-add benefit to Queensland businesses in the property sector.

Table 14 compares the estimated impacts included in the DRIS and Synergies' alternative estimates.

**Table 14 Overview of DRIS and alternative estimates of impacts of national licensing (PV terms)**

Impact	DRIS estimate	Conclusion	Synergies estimate
<b>Transition and implementation costs</b>			
Time for licensees to understand reforms	(2.29)	Not assessed - no change proposed	(2.29)
Business value-add	(0.76)	Not assessed – no change proposed	(0.76)
Licensing authority – set-up costs	(0.26)	Not assessed – no change proposed	(0.26)
National licensing register – jurisdictional implementation	(0.65)	Underestimated – did not fully consider transitional IT and database costs to jurisdictions	(2.91)
Government communications	(0.30)	Not assessed – no change proposed	(0.30)
<b>Ongoing impacts</b>			
Real estate agents – qualification changes	(2.77)	Underestimated cost impact – could not replicate DRIS est.	(9.05)
Licensees doing both real estate and business work – qualification changes	(0.25)	Overestimated cost impact – could not replicate DRIS est.	(0.05)
Agent's representatives – qualification changes	28.10	Overestimated benefit – could not replicate DRIS est.	4.23
Auctioneers – qualification changes	0.15	Underestimated benefit – could not replicate DRIS est.	0.65
Consistent maximum licence period	10.70	Overestimated benefit – not all licence holders will apply for five year licences	4.30
Reducing personal probity requirements	0.05	Not assessed – no change proposed	0.05
Removing the need to hold multiple licences	3.19	Not assessed – no change proposed	3.19
Removing the need to hold multiple licences – government	(1.76)	Not assessed – no change proposed	(1.76)
Licensing authority – operational	(1.72)	Not assessed – no change proposed	(1.72)
Labour mobility	48.73	Overestimated benefit – industry-specific factors not considered	9.74
Business value-add	8.74	National licensing will not result in time saving for licensees –no business value-add benefit	-
<b>Net impact</b>	<b>88.88</b>		<b>3.06</b>

Source: DRIS and Synergies modelling.

At best, the implementation of the proposed national licensing system for property occupations will result in a small net economic benefit for Queensland. However, while there is uncertainty over the extent to which this net economic benefit would be realised, there are components of the system proposed in the DRIS that could be implemented unilaterally by the Queensland Government. These factors are:

- exemptions for non-residential property transactions that:
  - have a value of over \$10 million or that relate to property with an area of greater than 10,000 sqm; or
  - take place between related entities; and
- changes to qualification and training requirements. While we have not been able to reach a conclusion regarding the appropriateness of the current requirements, several stakeholders have stated that the current levels are not sufficient. There is the potential for government to undertake an investigation into the appropriateness of current levels being undertaken in order to determine whether changes to the current arrangements can be made that will produce higher quality outcomes for both consumers and businesses in the Queensland property sector.

Automatic mutual recognition was included in the DRIS as an alternative option to national licensing. While the DRIS did not undertake a thorough analysis of the impacts of automatic mutual recognition, it was rejected as a viable alternative on the basis that it would result in a more complex and high risk environment. It would impose higher costs on business while not achieving the full benefits available under national licensing.

Based on the outcomes of stakeholder consultation, we consider that the conclusion reached in the DRIS in relation to automatic mutual recognition is reasonable. The legislative differences that exist between jurisdictions, particularly in relation to the conduct of licence holders, are likely to mean that automatic mutual recognition would be ineffective and impose additional costs on jurisdictional regulators. A program of conduct harmonisation across jurisdictions would be necessary before automatic mutual recognition could be properly considered.