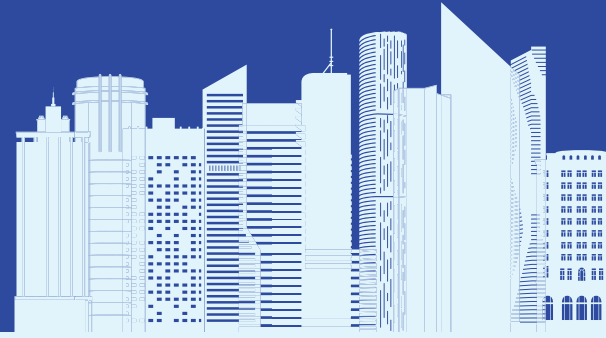


December 2017 SNAPSHOT

Survey of Industry Conditions



QUEENSLAND

State-wide residential conditions remained muted and while the non-residential sector continues to struggle, there was an increase in those who are reporting an improvement. There's more confidence in the future with the residential and non-residential sectors expected to strengthen in coming months. This confidence is well-founded with turnover, profitability and contract prices all being reported back as strong. The high cost of labour and materials continues as the most significant constraint on the industry across the state.



GREATER BRISBANE

After six months of muted trading conditions both the residential and non-residential sectors improved over the December quarter. The outlook for the coming three months is for further improvement. This confidence is well-founded with turnover, profit, new contracts, contract prices and employee levels stronger for the majority of respondents.



GOLD COAST

Trading conditions have remained subdued following a significant drop in the previous September quarter. Residential conditions are expected to improve but non-residential work will be limited, hampered by a lack of investment. There's good news in stronger profitability and contract prices, while high labour and material costs remain the most pressing constraint affecting business.



SUNSHINE COAST

While trading conditions for both the residential and non-residential sectors fell again over the quarter, there's optimism for the coming three months; optimism that's well-founded with turnover, profitability and contract prices all improving. The cost of labour and materials is the greatest challenge for businesses in the region.



Downs & Western

While both the residential and non-residential sectors remain muted over the December quarter, there is more confidence for the coming three months. Going forward, higher turnover and contract prices are expected to support improved profit and employment levels. At the same time, rising labour and material costs will act as a constraint businesses.



Wide Bay Burnett

There was a further dip in trading conditions over the December quarter for both the residential and non-residential sectors but it's expected to be short-lived with each of the business performance indicators reporting back strongly. The top constraints continue to be the high cost of labour and materials, and a lack of demand.



Central Queensland

While the residential sector continues to struggle, conditions in the non-residential sector are improving. The outlook for the coming three months is for improvement across both sectors. Turnover, profitability and new work are all stronger, while contract prices haven't shifted this quarter. The current lack of demand, and high labour and material costs continue as significant constraints in the region.



Mackay & Whitsunday

Residential trading conditions have been stable for the most part over the quarter and the outlook for the coming three months is more of the same. Non-residential conditions were strong for the quarter but this is expected to be a one off. There's reason to be confident of the longer-term, with business performance indicators (turnover, profitability and contract prices) all strengthening. The high cost of labour and materials, and the low level of demand continue as the most significant constraints on businesses in the region.



North Queensland

In a big turnaround for the long-struggling region, trading conditions for both the residential and non-residential sectors improved markedly over the December quarter. This is expected to moderate somewhat going forward but solid results in each of the business performance indicators (turnover, profitability and contract prices) bode well for the future. Despite the improvement there's still a need to tackle the low levels of demand that continue as a key constraint on the industry.



Far North Queensland

While trading conditions aren't being reported back strongly, work is beginning to flow through and there is confidence in the future. The residential sector in particular, has a very strong outlook for the coming three months. The high cost of labour and materials continues to be the key constraint but turnover, profitability and contracts prices are all stronger.



*percentage of total respondents

Hot topic PAYMENTS AND DISPUTES

With security of payment being a central issue for the industry, this quarter's Hot Topic explored the issue of payments and disputes. It delved into strategies for recovering money owed and reasons for not pursuing money owed.

When it comes to payments and disputes, the consensus was that there needs to be "reform that ensures contractors are paid for the work they have done." "Small businesses have very high costs and aren't being supported enough by the government. This leads to businesses going broke and subcontractors not getting paid"

Some have noticed a trend where people are more prepared to enter a contract with no intention of paying the full amount, especially with resident owners. One respondent said "I believe most consumers know more about how to get around the payment issues than they're given credit for." At the same time there are too many builders going into voluntary administration.

The new Building Industry Fairness legislation and changes to the Building and Construction Industry Payments Act (BCIPA) aren't seen as the solution. "They verge on unworkable for builders, suppliers and subbies." They're "confusing and creating a gold mine for lawyers"

In the majority of cases the time and effort involved in trying to recover unpaid monies is too great. Risking the ongoing relationship is another important reason not to pursue unpaid money. Cost is also a major factor and a significant proportion of respondents did not know how to go about securing the money they're owed.

In seeking to recover unpaid amounts the majority of respondents try to resolve the problem directly. When help's required, legal action by way of a solicitor and QCAT is the most common option. BCIPA is half as likely to be used.

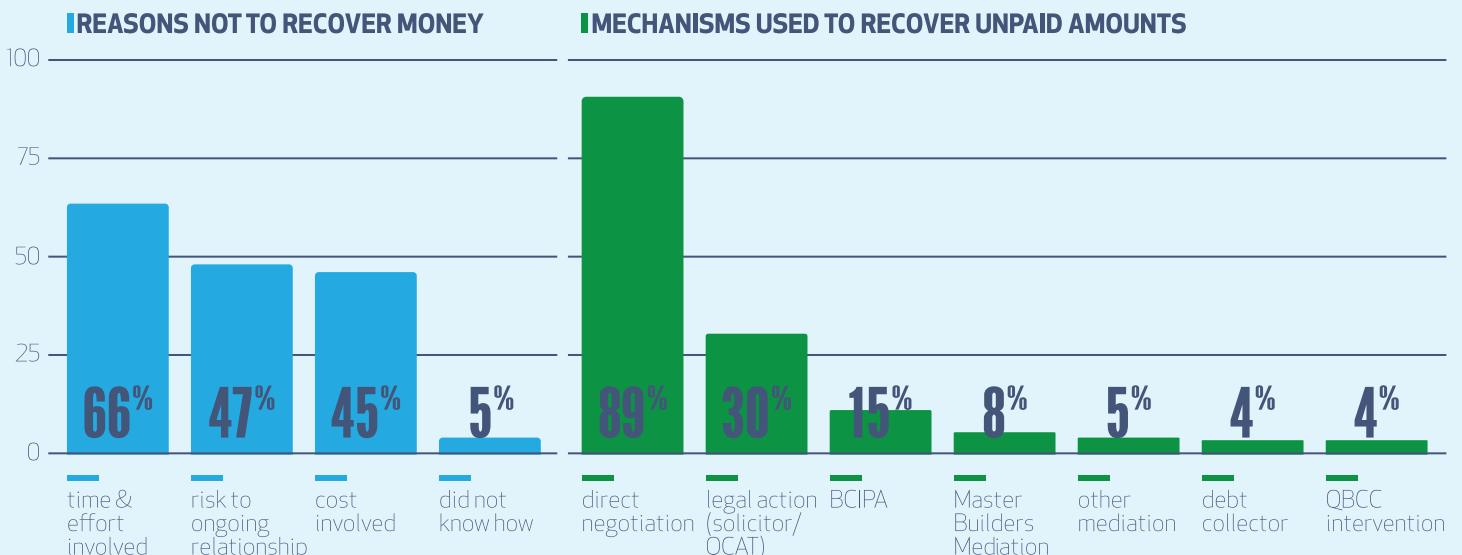
The reason that BCIPA is not relied on is the complexity of the process and the difficulty the industry has in understanding how it works. The processing rules are rigid and limiting. Missing a reference date will have a payment claim thrown out.

It's regarded as biased towards the complainant. Adjudicators who often lack the skills, experience and accountability is another big concern.

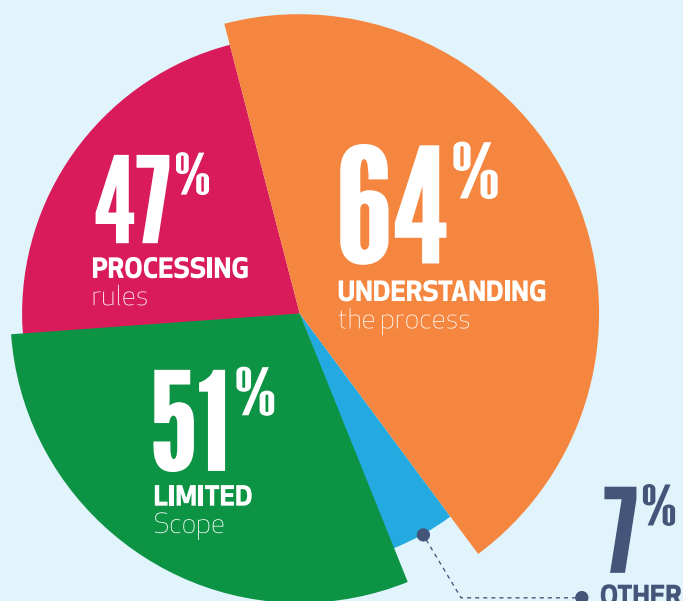
It's seen as a last resort option that is only taken at the risk of the ongoing relationship. "You don't want to cut off your nose to spite your face for future work"

The limited scope of the BCIPA process is also seen as a problem. It addresses only the payment issues and is blind to the wider issues, such as defective work that may form part of the dispute. Reportedly, as many as a third of payment disputes involve a dispute over defective work.

"There should be a dispute resolution process which addresses workmanship issues and gives the builder a quick independent arbitrator on the quality of the work."



Difficulties using BCIPA



Other solutions

Respondents also offered their own suggestions about how the disputes and payment system could be better structured. Suggestions included:

- Subcontractor payments should be set at 14 days
- There should be a cap on legal fees for Subcontractors Charges
- Payment systems should include the owner. Too often they hold out the final claim, then pay when legal proceedings commence.
- Retention monies should be held in trust and not the builder. "This money belongs to the subcontractor not the builder." It's not money that should be used as the cashflow of the business.
- Builder contracts are a major hurdle in assessing risk with the legal jargon leaving subcontractors exposed to unacceptable risk
- The dispute system needs to address the punitive terms and conditions insisted on by suppliers and contractors. "Most require us to grant indemnity to vendors which then voids our insurance cover."

The advice from one respondent was to seek help early, before the process gets underway.

Our response

In the Master Builders' 2018 Policy and Advocacy Agenda we recognise that security of payment is important in maintaining trust and confidence in our industry. All parties in the building chain need to be confident that they'll be paid what's owed. Solutions need to be all-inclusive; involving the owner, builder, subcontractors, sub-subcontractors, suppliers and consultants.

Over the coming year we'll work to achieve the following outcomes:

- Comprehensive review of the government's security of payment reforms, in particular, Project Bank Accounts
- Reintroduce annual, mandatory reporting on the QBCC's minimum financial requirements
- Resolve the major administrative burden of changes to payment schedule requirements
- Replace BCIPA with a genuine dispute resolution system.