MENZIES RESEARCH CENTRE SUBMISSION

QUEENSLAND PRODUCTIVITY COMMISSION INQUIRY

Opportunities to Improve Productivity of the Construction Sector

June 2025

Introduction

The re-establishment of the Queensland Productivity Commission ('QPC') under the *Queensland Productivity Commission Act 2025* heralds a renewed focus towards addressing the state's pressing economic challenges by alleviating construction-sector cost pressures and improving project delivery outcomes. Queenslanders hope to benefit from government measures, informed by the QPC, that will drive project delivery timelines forward, drive down costs of production, and deliver more of the infrastructure that Queenslanders need.

Productivity is one of the least understood concepts in public policy. We need to raise awareness of, and find solutions to, Australia's declining productivity growth as it is central to our future prosperity.

Put simply, improving productivity means producing more with less. The practical results can be seen in every sector of the economy. In agriculture for example, comparing output in 2000 to Federation, Australia produced 25 times more wheat and 2.5 times more wool and head of cattle, even though agricultural employees as a proportion of the Australian workforce fell 80 per cent.

Higher productivity is vital to improving real wage growth and living standards, business growth, and work-life balance. Paul Krugman's 1990 observation that "Productivity isn't everything, but in the long run it is almost everything" remains true. Falling productivity is one of the principal reasons Australian living standards have declined in recent years. Living standards will not improve unless our productivity crisis is solved.

Long-term productivity growth is the reason that the average Australian worker now earns seven times more in real terms than they did at Federation, while working 14 fewer hours per week. If we don't find new ways to kickstart productivity, the rising living standards we have experienced over many decades are at risk.

Declining productivity growth in Australia is a critical challenge that must be a priority for all governments. The Productivity Commission has found that average annual labour productivity growth in the decade to 2020 was just 1.1%, the lowest average in 60 years and significantly lower than the average of 1.8% over that period. More recently, productivity has collapsed, falling 0.5% in the September quarter 2024 to be 5.7% lower since the 2022 election.[1]

The Construction Sector in Queensland

The increasing size of Queensland's construction sector belies the fact that productivity has been stagnant for more than 30 years and delivery of new projects stands at the lowest rate in the country.

Concerningly, notwithstanding that there are around 280,000 people employed in the construction industry full-time, a figure which has increased 18% over the last five years, Queensland's Department of State Development and Infrastructure has reported that over the past 20 years construction industry productivity has declined by 8.4%.

This is in stark contrast to the agricultural industry's productivity growth of 91.8% over the same time. Queenslanders have therefore been paying more, using more resources, to get the same or less output in construction. Worse still, in 2024 the Property Council of Australia reported that Queensland overtook Victoria as the least productive state in the delivery of new projects.

[1] https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release.

Productivity Policy Responses

To address these issues, the Queensland Government should continue to implement measures to drive down the cost of projects. One such measure is the Queensland Government's pausing of the Best Practice Industry Conditions (BPICs) on new government-funded construction projects after revelations that the BPICs were adding up to 25 percent to the cost of projects.

Measures such as these and other cost-reductive policies are welcomed, in combination with other policies designed to increase the output of the sector.

Doing so is a major priority in light of the cost of living crisis driven in part by housing shortages caused by construction inefficiencies. On top of this, however, the Queensland Government has committed to major infrastructure spends — namely, for the Brisbane 2032 Olympics — which makes it timely to implement reforms to the construction sector.

Proposals

This submission recommends a package of relatively low-cost, practical policies that the Queensland Government can pursue now to improve productivity growth.

The policies we recommend are broad based enablers of productivity across the economy, with a particular emphasis on enhancing productivity in the most challenging sector of services, especially non-market services. These include:

- establishing an ongoing process to cut red tape;
- reforming planning and zoning in line with post-Covid work practices;
- removing barriers to the use of modern construction methods such as prefabrication and modular building;

The benefits of these policies will not be felt for some time, so the Government should begin the work of implementing them as soon as possible.

A smarter infrastructure pipeline

Construction sector productivity has been stagnant for three decades. Better coordination of government-supported infrastructure investments in road, rail, energy, housing and industry could reduce pressure on construction costs and improve productivity.

Currently, there is no meaningful mechanism to distribute the flow of infrastructure funds to avoid creating unnecessary pressures on the labour market and supply chains.

- The tools developed for governments by Infrastructure Australia to analyse the impact of construction projects and manage the infrastructure pipeline should be made publicly available.
- The Queensland Government should manage the impact of new projects on construction market capacity across portfolios, as recommended by Infrastructure Australia. The analytical tools developed by Infrastructure Australia should be used to better plan these investments.

There is significant scope to improve the productivity of public infrastructure investment, beginning with better pipeline planning and procurement practices across all portfolios. The size of Australia's public infrastructure programme — $230 billion over five years from 2022-23[2] — means that even

[2] Infrastructure Australia, 2023 Infrastructure Market Capacity Report, Report, December 12, 2023, https://www.infrastructureaustralia.gov.au/publications/2023-infrastructure-market-capacity-report.

marginal improvements in costs and efficiency could have a substantial national impact on construction sector productivity, which has been stagnant for over three decades.

The scope of productivity improvements goes well beyond government road and rail projects — investments in energy, housing and industry all compete for construction market capacity. Poor coordination of these projects across portfolios can squeeze the construction supply and labour markets, increasing costs and lowering productivity across the economy.

Infrastructure Australia has already recommended that the Commonwealth Government develop a whole of government approach to monitoring and managing the cross-sectoral impacts of investments on construction market capacity and better planning the delivery of projects.

Post-Covid planning and zoning

Changes to commuting habits and business practices following the Covid pandemic provide a unique opportunity for governments to reconsider planning and zoning from the ground up along the lines of the Productivity Commission's recommendations.

- The Queensland Government should review the appropriateness of current planning and zoning settings, with a view to enacting reforms to modernise these regulations in light of the significant changes to working and commuting habits following the Covid pandemic. This should include consideration of less stringent distinctions between residential and commercial/industry areas.

Planning and zoning restrictions have long been a source of frustration for businesses and builders.

These restrictions increase costs, slow commercial and residential development, constrain businesses and make it harder for Australians to own a home and live where they want to.

Reforming planning and zoning is widely recognised as an avenue to enhance productivity, but has proven incredibly challenging due to disparate views and entrenched approaches across local and state governments.

Planning and zoning regulations serve legitimate purposes including environmental protection and health and safety. However, these restrictions can be overly prescriptive and poorly implemented and therefore act as a barrier to productivity growth by impeding investment, increasing costs and inhibiting competition and business dynamism. This can include unnecessarily prohibiting certain activities or business practices and preventing new businesses from entering viable local (physical) markets.

The number of planning zones varies widely by jurisdiction (see Table 1) and there is doubtless scope for improvement and simplification of current arrangements. To support productivity, the Productivity Commission has recommended that governments implement standard business and industrial land use zones across local government areas, and aggregate existing zones where possible to broaden the range of permissible activities.

A wide range of consistent allowable uses would provide certainty, clarity and flexibility for businesses, promote competition, and reduce the need for costly and time-consuming rezonings.

Queensland has one of the highest number of commercial, industrial and residential zones of any state or territory which should be further investigated for streamlining to enhance productivity growth in the sector.

Table 1 - Planning zones by jurisdiction

Jurisdiction	Commercial zones	Industrial zones	Residential zones
New South Wales	3	2	5
Victoria	3	3	6
Queensland	6	9	7
Western Australia*	Not available	Not available	Not available
South Australia*			65 zones total
Tasmania	4	2	~5
ACT	6	2	5
Northern Territory	4	3	8

** Western Australian zoning varies across local government and the exact number of zones is not available. South Australian zones do not fall neatly into the three zone classifications.*

Source: Productivity Commission

The Productivity Commission has also found that improvements to residential planning restrictions such as allowing for greater density and mixed land use would support productivity growth.

Improvements to productivity would come through a reduction in transport times between homes and workplaces and an increase in 'agglomeration benefits' (i.e. self-reinforcing growth where more jobs attract more workers; productive firms attract other productive firms; specialist firms, industries and professionals congregate). More flexible residential planning that allows for greater density would also be highly likely to significantly reduce costs for building new homes.

The substantial changes to working and commuting habits and business practices as a result of the Covid pandemic, including the normalisation of remote-work and explosion in online retail, have arguably made the long-standing planning framework that divides residential and commercial areas outdated.

This provides a unique opportunity for governments to reconsider and reform planning and zoning from the ground up along the lines of the Productivity Commission's recommendations. Less stringent distinctions between residential and commercial/industry areas could allow for more creative and productive land use that reflect modern preferences, such as allowing for small online-retail warehouses and more small-format grocery stores in residential areas closer to their customers. It could also unlock the potential for more residential development in commercial areas such as CBDs.

This reform should be considered nationally. The Queensland Government should, through the National Cabinet, work with the other states and territories to review the appropriateness of current planning and zoning settings, with a view to enacting reforms to modernise these regulations in light of the post-Covid economic environment and in line with changes recommended by the Productivity Commission. Such a reform should be considered in addition to other, long overdue reforms more directly aimed at reducing the complexity and cost of development.

Supporting modern construction methods

The size of the construction sector in Australia means that even small improvements in productivity could have a substantial effect across the economy.

- The Queensland Government should, through the National Cabinet, lead a national approach to removing regulatory and other barriers to the wider adoption of modern construction methods that could reduce construction time and costs and significantly improve productivity, such as prefabrication and modular building.

Recent modelling by the Productivity Commission suggests that policies to support modern construction methods such as prefabrication and modular building could be one way to achieve such productivity gains.

Prefabrication and modular construction techniques involve offsite construction and transport which can result in reduced construction time (of 20 to 50%) and costs (15 to 20%) compared to onsite construction, as well as safer working conditions and better building quality.[3] These techniques can be used in both residential and non-residential buildings and are likely to have the most potential in projects with standardisation or economies of scale such as higher density apartments, retirement villages, housing estates (including social and affordable housing) and schools.

In recent years, prefabricated construction in Australia has ranged from 3-5% of all building construction, compared to 45% percent (and up to 80% of residential construction) in the Nordic countries, 20-33% in Singapore, 10-20% in Germany and the Netherlands, 15-20% in Japan, 8-16% in Canada and 5-10% in the UK.[4]

Productivity Commission modelling suggests that reforming the National Construction Code, standards and building regulations to support modern construction methods and increasing prefabricated and modular construction in Australia to 10-20% would grow the economy, even with a relatively small increase in construction output. The Commission's modelling found that a 2% increase in construction output as a result of wider use of modern construction techniques would result in:

- an increase in real GDP of $4.1 billion due to higher residential building construction output; and
- an increase in real GDP of $1.7 billion due to higher non-residential building construction output.

Removing regulatory and other barriers to the wider adoption of modern construction techniques would be a low-cost policy for governments to adopt with potentially high productivity rewards.

The Queensland Government should work with the Commonwealth and lead a national approach to achieve this to ensure a single, consistent national market for modern construction techniques, products and services.

Cutting red tape

Red tape stifles productivity by increasing costs for businesses and by inhibiting or entirely preventing certain activities. Excessive red tape and poorly designed regulations reduce business dynamism and slow the formation of new businesses.

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[3] Productivity Commission, National Competition Policy: modelling proposed reforms, Research paper, Canberra, November 1, 2024, https://www.pc.gov.au/inquiries/completed/competition-analysis/report/competition-analysis-with-appendices.pdf.

[4] Ibid. Productivity Commission, National Competition Policy: modelling proposed reforms, Research paper, Canberra, November 1, 2024, https://www.pc.gov.au/inquiries/completed/competition-analysis/report/competition-analysis-with-appendices.pdf.

While some regulations are of course necessary, the constant flow of new regulation and changing technology and business practices means there will always be a stock of regulations that can be safely removed or improved to lower costs for businesses and enhance productivity.

This is because the incentive structure for government officials leans heavily towards rewarding more regulation, not less. Regulators and government departments and officials have little to no incentive to proactively reduce regulation without being directed to do so, since there are limited risks in leaving existing rules in place. In contrast, it is easier to respond to calls for new regulations to protect from apparent risks, particularly in new areas (for instance, AI). This incentive structure needs to be flipped on its head.

Previous attempts to incentivise red tape reduction across federal and state governments have had some success, but did not go far enough.

An example is the Abbott Government, which committed to holding two 'red tape repeal days' per year to achieve $1 billion in annual red tape reductions, effectively requiring officials and Ministers to establish a process to deliver these reductions.

Despite this, and numerous other concerted efforts by multiple administrations, clear examples of unnecessary red tape were being identified years later. For example in 2019, former Morrison Government Minister Ben Morton, tasked with delivering deregulation, found that food exporters had to wait for approved permits to be mailed to them or travel to Melbourne to collect them in person before their goods could be exported (since rectified so they can receive them digitally).[5]How this requirement was not identified by government officials when they were previously directed to find examples of red tape to remove is mind boggling. There are doubtless countless more such examples.

The experience of former Minister Morton provides an important lesson on how to deliver red tape reductions across Government when faced with the complexities of Government in Figure 1 — there must be a single Minister given ongoing responsibility for this important task, with the backing of the Premier and resources of a permanent team in a central department such as Premier and Cabinet or Treasury. The alternative — where every Minister is indirectly expected to deliver red tape reductions — means that no one is responsible and regulatory inertia can be expected to continue.

In addition to having a Minister solely responsible for deregulation, the Government should impose a requirement that all new regulations are offset by removal of an existing regulation, with no exemption for 'new' regulatory areas such as AI.

This could be measured flexibly by either number of regulations or the dollar impact of reduced regulatory burden and should occur on at least a 1:1 basis — ideally aspiring to the 2:1 rule.

Offsets should be flexible enough to include instances where an existing regulation is improved or simplified but not removed, as occurred with the food exporter example above.[6] The Government could nominate higher-value priority areas (such as AI) where removal would most enhance

[5] Australian Treasury, Busting congestion and supporting investment and jobs - the Government's deregulation agenda, (Canberra: Australian Government, 2019), https://treasury.gov.au/sites/default/files/2019-11/p2019-37103_0.pdf.

[6] Other examples could include reducing the frequency of registrations, aligning reporting requirements across portfolios or jurisdictions, lowering direct fees/costs, or presuming approval of low-risk activities.

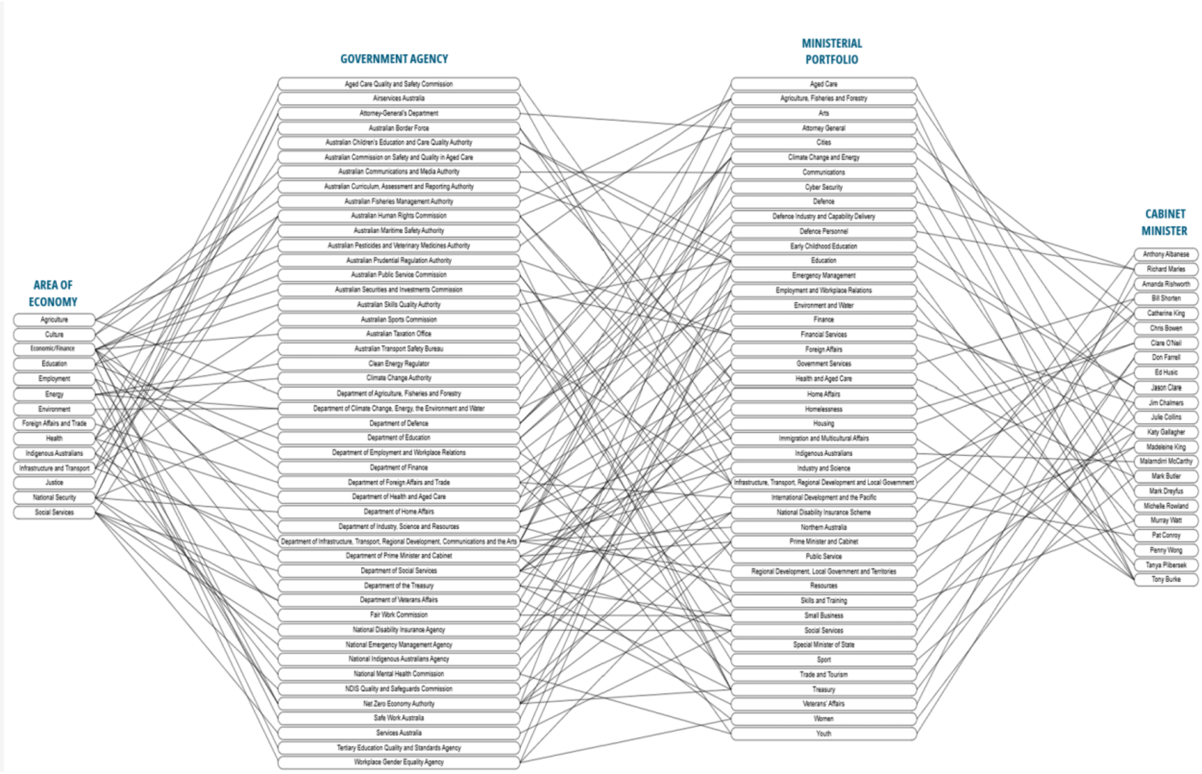
productivity to incentivise red tape reductions in these areas, and should allow departments/Ministers to identify unnecessary regulations in other portfolios for removal.

A minimum quota of regular reductions should also be set in all areas of government to eliminate the incentive to 'bank' red tape reductions, and consideration given to reinstating the 'red tape repeal day' process established under the Abbott Government.

The Queensland Government should undertake a process to determine how effective and efficient agencies and ministers are by drawing up a flow chart mapping out government responsibilities similar to Figure 1. The chart in Figure 1 provides a striking representation of the complex reporting lines between cabinet ministers, their portfolios and the agencies responsible for each policy area at the Commonwealth level. A similar exercise conducted at a state level would doubtless result in a chart of similar complexity.

Commonwealth Government Responsibilities Flowchart

Figure 1



*As at December 2024

Conclusion

Falling productivity is a principal reason Australians' living standards have been falling and reversing this trend should be a priority for all governments. In the long run, there is no substitute for lifting productivity if we want to enjoy higher wages and economic growth. Without reforms to improve productivity, Australia will be left behind at a time when growing geopolitical disorder means it has never been more important to remain competitive.

There is no consensus on the solutions to lower productivity growth and no single lever that governments can pull to guarantee higher productivity. What is clear however, is that previous shifts in productivity were not predictable and governments should not assume that supporting a particular technology or innovation will lead to future changes in productivity. This means we can't put all our eggs in even a few baskets.

Productivity-enhancing policies for both the private and public sectors must be pursued across a broad range of fronts and constantly reassessed. In the private sector, the role of the Government should be to position and enable businesses to seize new opportunities with policy settings that get the basics right and support the spread of good ideas across the economy.

The MRC has put forward a package of relatively low-cost, practical policies that the Queensland Government can pursue now to improve productivity growth.

The policies we recommend are broad based enablers of productivity across the economy. In addition to these recommended policies, governments should pursue more challenging reforms such as removing stamp duty on property purchases and insurance, simplifying planning and zoning, and lowering taxes.

The benefits of these policies will not be felt for some time, so the Government should begin the work of implementing them as soon as possible to ensure a more prosperous Australia in the future.