Comment – Queensland University of Technology

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This submission is based on preliminary findings from a current research project into the drivers of insolvency in the Australian residential construction sector, funded by the Building 4.0 CRC through the Commonwealth Government Cooperative Research Centres Program The insights and recommendations from this research will be delivered in a final report at the end of September 2025.

Australia is facing a critical shortfall in housing supply, driven by surging demand and a struggling construction sector. High immigration levels – net migration reached 518,000 in 2023- combined with a trend toward smaller household sizes, are intensifying demand for new housing.

Despite this demand, the supply response is weakening. In 2024, new building commencements fell to their lowest level in a decade. More concerningly, the ratio of new population growth to new building approvals has reached its worst point since recordkeeping began in 1984.

Amid the decreasing rate of housing availability, our research highlights high rates of insolvency within the residential construction sector, signalling deepening challenges in meeting housing demand. In the 2024 financial year, 2,832 construction companies collapsed- accounting for 27% of all insolvencies nationally, nearly double that of the next sector.

While the high level of insolvencies in the sector is often attributed to pandemic-era disruptions, including labour shortages, supply chain issues, and material cost inflation, the reality is that the sector has not stabilised post-COVID and has, in fact, experienced high insolvency rates for some time, including pre-COVID A 2022 Reserve Bank of Australia (RBA) review identified mounting financial pressure in the sector and anticipated increased insolvency risk and systemic flow-on effects to consumers and suppliers.

Our preliminary research indicates that, at the core of the problem, are sector-specific vulnerabilities such as:
• Insufficient financial structures
• An exceedingly complex regulatory environment
• Limited financial and business acumen by business owners across the residential construction sector due to the absence of training and/or education in this regard

These weaknesses are contributing to productivity drag across the broader economy and increasing risks of consumer exposure and project failure.

The rising rate of insolvency in residential construction is not just a sectoral issue. It has direct implications for housing availability, economic productivity, and financial system stability.

Our research project is using a mixed methods approach, incorporating an environmental scan of the literature, statistical analysis of ASIC data and, thematic analysis of data collected during four workshops held with experienced sector stakeholders. This multifaceted methodology was used to facilitate:

• Identification of the primary drivers of business failure in the Australian residential construction sector.
• Assessment of the economic and social impacts of widespread insolvency within the residential construction sector.
• Development of actionable recommendations for regulatory reform and educational interventions aimed at improving sector resilience.

There is a clear need for coordinated policy attention to strengthen the financial sustainability of residential construction, streamline regulatory oversight, and to enhance sector capacity to meet Australia's growing housing need.

Construction Productivity Inquiry

Submission to the Queensland Productivity Commission

2 June 2025
In partnership with Building 4.0 CRC

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Australian Government
Department of Industry, Science and Resources
Cooperative Research Centres Program

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Executive Summary

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While the high level of insolvencies in the sector is often attributed to pandemic-era disruptions, including labour shortages, supply chain issues, and material cost inflation, the reality is that the sector has not stabilised post-COVID (Nassim Khadem, 2024; QBE Insurance, n.d.) and has, in fact, experienced high insolvency rates for some time, including pre-COVID (see, for example: Amman, 2017; Coggins et al., 2020; Guest, 2012; Tan, 2014). A 2022 Reserve Bank of Australia (RBA) review identified mounting financial pressure in the sector and anticipated increased insolvency risk and systemic flow-on effects to consumers and suppliers.(Reserve Bank of Australia, 2022).

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There is a clear need for coordinated policy attention to strengthen the financial sustainability of residential construction, streamline regulatory oversight, and to enhance sector capacity to meet Australia's growing housing need.

Introduction

This document is drawn from research currently being conducted under Building 4.0 Cooperative Research Centre Project #80 (B4.0CRC#80), *Why are insolvencies so high in the Construction Industry and what can be done about it?.* The support of the Commonwealth of Australia through the Cooperative Research Centres Program is acknowledged. This research is being conducted by Queensland University of Technology (QUT) in collaboration with industry partners: the Victorian Building Authority, Master Builders Victoria, and Holmesglen Institute.

Our research explores the causes of high insolvency rates in the residential construction sector, addressing concerns about financial risk management as well as policy and regulation impacts. The focus is on reducing the broader economic and other impacts of residential building company failures, by triangulating insolvency data, sector systems and the educational environment to identify key focal points for reform. The final report's insights and recommendations (when complete end September 2025) will provide regulators, industry and educators evidence-based guidance in designing reforms, preventative measures and educational supports to enhance the robustness of the sector and bolster its role in housing affordability.

This document provides a summary of the key findings to date, based on:

- An environmental scan to identify extant literature and knowledge on the causes of construction insolvencies and economic impacts. A high level search in both academic and industry literature indicates a significant body of knowledge exists. This prior knowledge provided the leap pad for this project.[1]
- The first two of four collaborative guided workshops with project partners and other invited industry participants, designed to identify and map the various complexities of the residential construction system. This workflow has then been interrogated to identify key pain/fail points from which insights/recommendations follow.

Our project commenced early 2025, with the remaining two workshops scheduled for June and August, with the final report to be completed end September 2025. This document predates our June workshop which specifically targets Queensland input to this national research.

The focus of this research is on SMEs that fall into insolvency despite best endeavours. Consideration of reforms required to close 'phoenixing' loopholes is outside the scope of this project.

This document has been prepared by:

- Morgan O'Neill, PhD Candidate, School of Law, QUT
- Dr Lyndall Bryant, Senior Lecturer, School of Economics and Finance, QUT

[1] A copy of our literature review may be available upon request (subject to approval from our project partners)

- Dr Elizabeth Streten, Lecturer, School of Law, QUT
- Amanda Bull, Associate Lecturer and PhD Candidate, School of Law, QUT
- Dr Fiona Cheung, Senior Lecturer, School of Architecture and Built Environment, QUT

We are researchers across the specialisations of insolvency law, legal regulation, property economics and construction management:

- Morgan O'Neill's research is focussed on understanding regulatory barriers in context to regulatory theory design principles.
- Dr Lyndall Bryant's research includes an analysis of housing affordability, effective housing supply and barriers to urban development
- Dr Elizabeth Streten's research is focused upon insolvency law, and includes consideration of insolvency regulation
- Amanda Bull's research is primarily focused upon small businesses in financial distress and the legislative restructuring mechanisms that are available to them. Her research also extends to the impact that small business failure can have on stakeholders and the wider economy
- Dr Fiona Cheung's research includes consideration of relationship management and supply chain management in construction

This document responds to the following Terms of Reference inquiries:

1. current conditions in the housing market, residential development sector, infrastructure delivery and construction sector in Queensland, including in both housing and non-residential construction as they relate to the delivery of additional housing supply and housing affordability
2. factors shaping Queensland's productivity performance including commonwealth, state and local government legislation and regulation, industrial relations matters, procurement policies and labour force needs (individually, cumulatively or through duplication) and opportunities for improvement
3. the opportunities for improvements in productivity in Queensland including regulatory and non-regulatory mechanisms
4. priority areas for reform for the Queensland Government to efficiently address identified challenges in the short, medium and long term (including but not limited to labour availability, skills availability and market competition, the availability of suitably qualified head contractors and sub-contractors etc) key recommendations and themes from other relevant productivity reviews, including those undertaken by the Australian Government Productivity Commission
5. barriers to entry, investment and innovation in the sector, and potential options to address those impediments
6. key issues to be considered in implementing reform options identified and views on how recommendations could be prioritised.

Insolvency in the Residential Construction System

According to recent IBISWorld forecasts, Australia's residential construction sector is projected to experience moderate growth through to 2029-30, with annual increases of approximately 1.4% in house construction and 4.4% in multi-unit developments, including apartments and townhouses (Kelly, 2024). However, this projected growth masks underlying structural and operational challenges that continue to place significant strain on the sector. Key pressures include:

- Rising input costs, particularly for materials;
- Ongoing supply chain disruptions affecting project timelines;
- Widespread skilled labour shortages;
- Environmental and external shocks, including post-COVID recovery dynamics, natural disasters, and persistently high interest rates.

These challenges have contributed to a steady rise in insolvency rates across the sector, as shown in Figure 1, below[2][3]. The financial viability of many construction firms is being undermined by thin profit margins, cost volatility, and delays, which are factors that threaten to weaken productivity and the sector's ability to meet future housing demand.

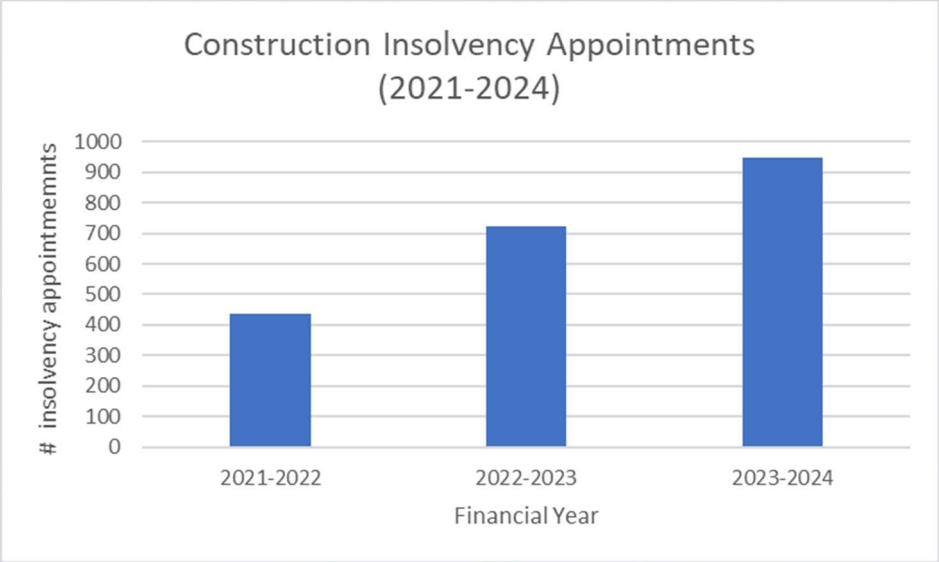

Figure 1 - Construction Insolvency Appointments 2021-2024 analysed by the authors using data obtained from ASIC Insolvency Series 1 and 2 (ASIC, 2025)

[2] The above figures should be read with caution as during FY22 and FY23 many smaller construction companies were financially propped up by government financial support received during the COVID-19 pandemic.(Bull, 2025, p. 12; Dörr et al., 2022, pp. 887–888) The RBA, in its April 2025 Financial Stability Review, suggests that on a cumulative basis these numbers remain slightly below their pre-pandemic trend. The rise has been due to challenging economic conditions and a catch-up effect from exceptionally low insolvencies during the pandemic.(Reserve Bank of Australia, 2025)

[3] ASIC data prior to 2021 did not distinguish between the types of construction companies entering insolvency procedures. As a result, data for this analysis is limited to the period commencing 1 July 2021.

While construction sector growth projections (see Kelly, 2024) offer cautious optimism, they cannot be realised without addressing the systemic vulnerabilities within the sector. Policy responses targeting education development, supply chain resilience, regulatory flexibility, and financial safeguards for builders and subcontractors are critical to ensuring the sector's long-term stability and the achievement of national housing goals (see Australian Government, 2022).

Systemic Challenges in Residential Construction

The residential construction sector in Australia operates within a highly complex system shaped by both internal sector dynamics and broader external forces. These systemic complexities contribute to high insolvency rates, which in turn are undermining productivity, national housing supply and affordability objectives.

Internal Sector Challenges

Our research indicates that several internal factors are compounding financial instability across the sector:

- Contractual and financial arrangements, such as hierarchical contracting chains and a reliance on trade credit, increase financial risk and often place subcontractors in unsecured creditor positions.
- Poor cash flow management, exacerbated by delayed payments and lack of transparency in supply chains, increases insolvency vulnerability.
- Aggressive underbidding and the prevalence of undercapitalised firms, including those engaged in phoenixing practices, reduce financial resilience and long-term sustainability.
- Contractors often need to manage complex business environments with limited financial or business management expertise, making these firms, in particular SMEs, more susceptible to failure.

These internal weaknesses point to a need for regulatory and financial reforms that improve contract oversight, encourage responsible bidding practices, and promote business capability-building across the sector.

External Pressures and Regulatory Complexity

Externally, the sector is subject to significant pressures stemming from environmental events, economic fluctuations, and political developments. Among the most pressing social policy concerns linked to construction sector instability is housing affordability.

In recognition of this issue, the Australian Government launched the National Housing Accord in 2022, setting a target to commence construction of one million new homes over five years from mid-2024. The Accord acknowledges that “affordable housing is critical for the wellbeing of Australians and the productivity of the Australian economy” (Australian Government, 2022).

However, despite this commitment, housing shortages persist (National Housing Supply and Affordability Council, 2025) and building approvals have declined since the Accord's announcement (Kohler, 2025). High rates of construction insolvency are both a cause and a consequence of this shortfall, highlighting the interconnectedness between financial fragility in the sector and the broader housing crisis.

Further compounding these issues is the regulatory environment. As outlined in *Building Process Mapping: The Regulatory System and Potential for Digital Information Capture* (Zhang et al., 2020), the sector is significantly shaped by the National Construction Code (NCC) and other regulatory approval processes. These requirements, often staggered across a project's lifecycle, represent significant project risks and influence the timing of investment and construction activities.

Productivity Impacts of Insolvency in the Construction Sector

Addressing insolvency in residential construction is not merely a sector issue. It is a foundational component of achieving national housing, productivity, and equity goals. Insolvency in the construction sector has far-reaching consequences that extend beyond immediate financial losses. It affects not only individual businesses and workers but also undermines sector-wide productivity and imposes broader economic costs.

The collapse of a construction business often leads to significant project delays, cost overruns, and cascading impacts across the supply chain. As noted by the Electrical Trades Union of Australia, insolvency typically results in project disruption, with new licensed builders needing to be sourced at additional cost and delay (Australian Government, 2015). These disruptions can spread to unrelated projects. For example, as the CFMEU highlighted, if a subcontractor is affected on Project A, its ability to operate on Projects B, C, and D may be compromised, given the sequential nature of construction work (Australian Government, 2015).

Such chain reactions reduce sector efficiency and increase risk for all participants. Businesses, facing financial exposure from such insolvencies, often become more risk-averse, limiting investment in innovation, workforce development, and operational improvement.

Insolvency also raises the cost of doing business across the sector. As the Housing Industry Association (HIA) observed, when financiers experience losses due to liquidation, this increases financing costs for all construction firms, regardless of their financial strength (Australian Government, 2015). These higher capital costs constrain growth, reduce reinvestment, and depress overall sector productivity.

Persistent insolvency risk discourages innovation and long-term planning. According to the Air Conditioning and Mechanical Contractors' Association (AMCA), the "spectre of insolvency" contributes to the construction sector being consistently ranked among Australia's least innovative industries (Australian Government, 2015). When in financial distress, the focus

naturally shifts from strategic growth to short-term survival, thus impeding productivity-enhancing reforms and digital transformation (Australian Government, 2015).

Insolvencies also create downstream effects in the labour market. Workers affected by company collapses may be forced to seek public assistance, increasing demand on government support systems. As one sector representative noted, this creates "a drain on productivity and a drain on all the things we should have in a civil society." (Australian Government, 2015)

Importantly, the negative productivity impacts begin well before formal insolvency. Common sector practices, such as delayed or withheld progress payments, place immense pressure on businesses operating on thin margins. Chasing outstanding payments consumes time and resources and can itself become a contributing factor to insolvency. These pre-collapse dynamics reduce business confidence and reduce capacity for operational investment.

While qualitative evidence strongly links insolvency to reduced sector productivity, there is a lack of quantifiable data estimating the full economic cost (Australian Government, 2015). Additionally, the recommendations made in the 2105 senate report do not appear to have been implemented. This represents a critical gap for policy development. Understanding and addressing the systemic causes and consequences of insolvency will be essential for improving productivity, workforce stability, and housing delivery in Australia. The final project report for our research will address this gap.

Drivers of Insolvency in the Construction Sector

ASIC Insolvency Series 3.1 (Australian Securities & Investment Commission, 2024) data indicates there are several likely causes of insolvency in the construction sector including:

- Failed attempt at a Voluntary Administration/Deed of Company Arrangement under Part 5.3A of the *Corporations Act 2001* (Cth) (n=8, 0.4%)
- Industry restructuring (n=9, 0.5%)
- Business restructuring (n=11, 0.6%)
- Director dispute (n=38, 1.9%)
- Fraud (n=42, 2.2%)
- Natural disaster (n=97, 5.0%)
- Poor management of accounts receivable (n=362, 18.5%)
- Under capitalisation (n=613, 31.4%)
- Poor economic conditions (n=634, 32.5%)
- Poor financial control including lack of records (n=762, 39%)
- Trading losses (n=856, 43.9%)
- Other (n=870, 44.6%)
- Poor strategic management of business (n=967, 49.5%)
- Inadequate cashflow or high cash use (n=1,055, 54%)

These data are further illustrated in Figure 2 below. Note, figures and the accompanying graph are drawn from ASIC Series 3 for the 2023/2024 financial year. More than one cause

of company failure can be nominated in each report. The number of nominated causes of failure will therefore exceed the number of insolvent companies. Reports are only lodged if it appears to the insolvency practitioner that there has been some type of misconduct or offence committed: (Australian Securities and Investments Commission, 2023, 2024, Table 3.2.2.2)

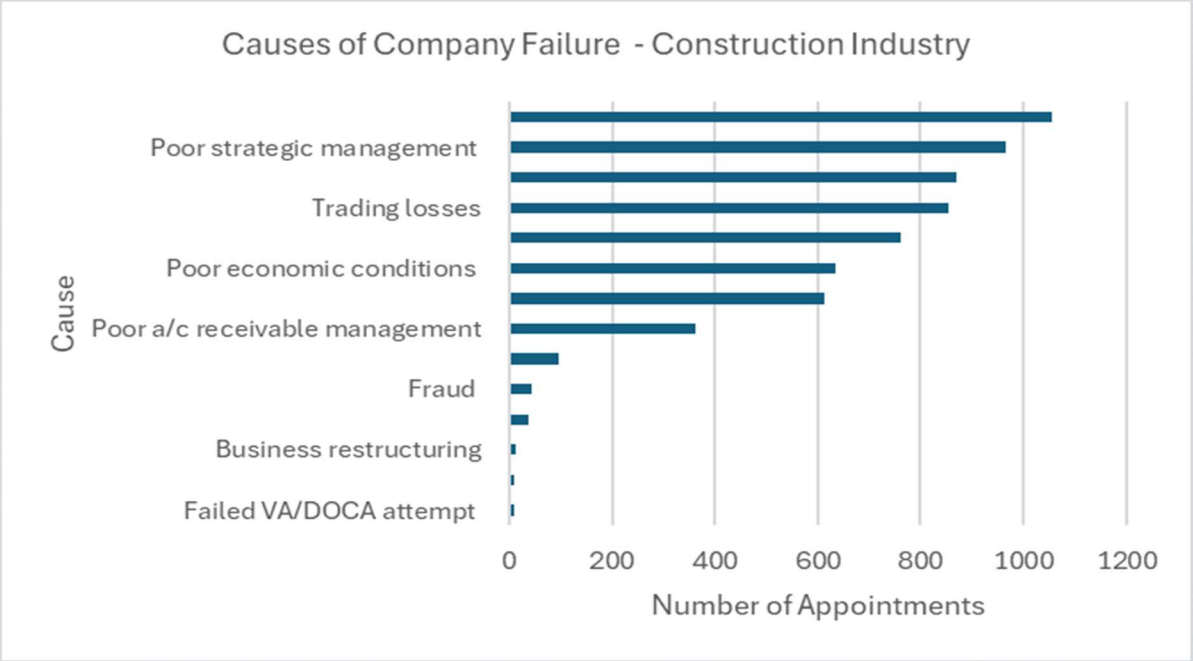

Figure 2 - Causes of Company Failure in the Australian Construction Industry

When reviewing insolvency data provided by the Australian Securities and Investments Commission (ASIC), it is important to acknowledge the inherent limitations of the reporting process. External administrators' complete ASIC reports by selecting from a predetermined set of options and numerical ranges. As such, these responses may not fully capture the complex factors that lead to a company's insolvency. For example, one commonly cited cause of failure, an unsuccessful attempt at a voluntary administration, does not explain the underlying financial distress that prompted the voluntary administration in the first place. Furthermore, the 'other' causes of financial distress are unclear, yet are reported as one of the most significant causes of financial failure in the construction sector.

The research team is liaising with ASIC to obtain some further clarification on the categories of financial distress that fall within the 'other' causes category.

Underlying Causes: Structural Sector Issues

Further insight into the causes of insolvency can be drawn from the structural characteristics of the construction sector itself. Research by Buscombe, Karageorgiou, and Thirlwell (2023) identifies several recurring factors (Buscombe et al., 2023):

- Pyramidal subcontracting chains that dilute financial accountability.
- Heavy reliance on trade credit, leaving subcontractors and suppliers exposed as unsecured creditors.
- Poor payment practices, contributing to ongoing cash flow instability.
- Aggressive underbidding and undercapitalisation, both of which weaken financial resilience.
- Illegal phoenix activity and poor business management capabilities (noting this is outside the scope of our research project).
- Dominance of Small Medium Enterprise actors (SME) in the industry.

These systemic features significantly increase the vulnerability of construction businesses to insolvency, particularly in periods of external economic stress.

Limitations in Available Data

A key objective of this project's environmental scan was to identify whether existing data sources can help profile residential construction companies at risk of insolvency. While ASIC provides some useful data, such as the industry type, type of insolvency appointment, and jurisdiction, critical details remain absent. There is limited publicly available information on the **s**ize of the company, specific characteristics of the building project, or pre-insolvency financial health.

Additional profiling data from the Australian Bureau of Statistics (ABS), such as director age, gender, and business longevity, is available but not sector specific. These limitations are also echoed in the *Small Business Counts* report from the Australian Small Business and Family Enterprise Ombudsman (2020), which highlights similar data gaps.

Another constraint lies in the ASIC Insolvency Series 3.2 dataset, which reports on insolvency across the entire construction sector, without disaggregating data specific to residential construction. Although it provides some insights into causes of insolvency and company size (measured by full-time equivalent employees), the absence of sector-specific granularity limits its usefulness for targeted policy analysis. There has been significant criticism of the lack of publicly available insolvency data.(Bull, 2025; "Executory Contracts in Insolvency Law," 2023, p. 32; Parliamentary Joint Committee on Corporations and Financial Services, 2023).

Our final project report will present findings and identify these data limitations. The aim is to identify opportunities to improve data availability and granularity, particularly within the residential construction sector, so that insolvency risk can be better understood, monitored, and mitigated through evidence-based policy and regulatory reform.

Key Drivers of Insolvency: Insights from Stakeholder Engagement

This section summarises key themes that emerged from the data captured during our first two research workshops. Due to ethical constraints and the proprietary nature of the ongoing

study, detailed findings will not be publicly available until end September 2025 when we submit our final report to the B4.0 CRC .

During workshops 1 and 2, stakeholders consistently identified three primary drivers of insolvency within the residential construction sector, each of which also contributes to suppressed productivity across the sector:

1. Inefficient and high-risk financing structures.
2. Regulatory complexity and inconsistency.
3. Insufficient business and financial capability among licenced builders.

Financing Structures

Stakeholders identified the financial structures underpinning construction projects as a central driver of insolvency risk. The sector relies heavily on funding models that expose builders, particularly small and medium enterprises (SMEs) in domestic construction, to high levels of financial strain from the outset of a project.

Method A or Method B[4]

Two common financing structures were identified in stakeholder workshops: Method A and Method B bank lending on house and land packages.

- Method A (Standard Stages) involves fixed payment construction stages (e.g. slab, frame, lock-up). This method provides predictable payments to the builder and a clear, regulated framework for lenders and clients.
- Method B (Flexible Payment Schedule) allows the builder and client to agree on custom payment stages, offering greater flexibility and often greater financial security for the builder. While payments are still made after relevant work is completed, this method supports tailored agreements aligned to specific project needs.

Banks generally prefer Method A for residential construction lending because it aligns closely with risk management practices, regulatory frameworks, financial predictability and their internal processes. In contrast, Method B introduces more variability, which lenders perceive to increase complexity and risk. That perception arises because customised stages do not always align with standard valuation practices and internal procedures, making it harder for lenders to verify progress and standardise payment timeframes.

However, while Method A works well for banks, it often places considerable strain on builders.[5] One of the most significant challenges is the cash flow gap it creates, with works completed well prior to processing of payments by the client's banks. This occurs at all stages of the build, however the greatest risk exists early in the project prior to exchange of contracts. This is discussed in more detail in the following section on Preliminaries.

[4] These progress payments are not always referred to as Method A and Method B between states. For clarity, these are the nominals used in this report.

[5] Workshop 1 findings (to be published)

The rigidity of Method A also fails to account for the diverse nature of modern construction projects with prescribed stages not always reflective of the actual sequence of work. For some builds, or in renovations and extensions, the construction process is often non-linear and site-specific, meaning that tying payments strictly to standard milestones can be impractical. Delays in certification and administrative hurdles in evidencing completion of a stage further exacerbate payment lags, adding financial pressure and delaying project timelines.

In contrast, Method B offers builders a more flexible alternative. It allows the builder and client to define customised payment stages that better reflect the specific flow of work. Builders can schedule payments to align with high-cost phases of work or critical inputs like ordering materials or subcontractor bookings. This structure significantly improves cash flow by enabling earlier and more frequent payments that are better matched to real-time expenditure.

Overall, while Method A provides predictability for banks, Method B aligns more closely with the practical and financial realities of builders. For the domestic construction sector to remain sustainable, particularly in the context of rising insolvencies and tightening margins, there is a strong case for expanding the acceptance and support of Method B type structures, both in policy and financing.

Funding of Preliminaries

Compounding these pressures are the substantial, legislatively mandated, pre-deposit costs that builders incur before construction can begin. This includes, for example, building approvals and planning permits, soil testing and site classification, insurance premiums (e.g., home warranty insurance), engineering and architectural documentation, and associated legal and administrative compliance fees. These pre-construction expenses can reach tens of thousands of dollars per project, often without corresponding cash inflows.

Builders are typically required to fund many of these preliminaries. In many jurisdictions, regulatory settings prevent builders from charging for preliminary work unless a full contract has been signed.[6] In practice, this prohibits domestic builders from even accepting a deposit until after the contract is signed. Further a fully documented contract is required by the banks for finance approval, which is often required to fund that deposit. For smaller operators, this creates a dangerous liquidity gap that can persist throughout the project if progress payments are delayed or withheld.

This ‘chicken and egg’ scenario can be particularly burdensome for SME builders with limited financial reserves, forcing them to rely on trade credit or personal funds to fund these upfront costs. Builders have no mechanism to recoup these costs should the client not proceed for any reason, including inability to secure finance approval.

Taken together, these financial practices contribute to a fragile operating environment where licenced builders routinely work with negative or marginal cash flow. In a sector already characterised by thin margins, this creates a substantial risk of unmitigable financial losses

[6] Preliminary works fall under the definition of excluded building work in section 1 of Schedule 1B of the QBCC Act. The legislation governing domestic building contracts, Schedule 1B of the QBCC Act, does not specifically address preliminary agreements, the rights and obligations of the parties under these simple agreements are therefore governed by general principles of contract law.

and distress. The risk is further amplified by volatile material and labour costs, delayed payments from clients or head contractors, and limited access to affordable short-term credit.

This environment erodes business resilience and increases the likelihood of insolvency, particularly during economic downturns or in periods of high interest rates. It also limits the sector's capacity to scale in response to national housing targets, as financially constrained businesses are unable to take on additional risk.[7]

Regulatory Complexity

The construction sector in Australia operates within one of the country's most heavily regulated environments. The complexity of the regulatory landscape reflects the sector's critical role in safeguarding public health, worker safety, environmental sustainability, and community wellbeing. These regulatory frameworks ensure buildings meet essential standards for structural integrity, fire safety, energy efficiency, and accessibility, among others. However, stakeholders across the sector consistently report that while these regulations are fundamentally important, the current regulatory burden has become a significant barrier to innovation, efficiency, and adaptability.

National Construction Code

At the national level, the National Construction Code (NCC), administered by the Australian Building Codes Board, sets essential standards for building safety, health, accessibility, and sustainability. However, the NCC has grown to over 2,000 pages with frequent updates every three years, and its broad policy objectives combined with state-by-state enforcement, as well as additional state and local government regulations, create challenges for compliance and consistency.

One major issue lies in the technical complexity of the NCC, which our workshop participants report demands specialist knowledge to interpret and implement correctly. This complexity is compounded by the fact that enforcement is conducted by different state and local authorities, leading to variations in interpretation and application across jurisdictions. Businesses, particularly SME builders and subcontractors, face uncertainty around compliance expectations, increasing the risk of costly delays, rework, and potential legal liabilities.

Although the NCC operates at a national level, each state and territory enforces its own regulations related to licensing, building approvals, inspections, and enforcement, with local councils often involved in planning and zoning approvals (i.e Planning Act 2016). This further adds complexity to the administration of the NCC. Failure to secure necessary permits can cause costly delays and disrupt project timelines. Additionally, laws related to workplace health and safety, environmental protection, industrial relations, and security of payments further intersect with the construction sector.

The overlapping rules and inconsistent enforcement across jurisdictions can lead to delays, increased costs, and compliance uncertainty, particularly impacting smaller firms. This regulatory environment can discourage innovation and hinder productivity by forcing

[7] Workshop 2a findings (to be published)

businesses to focus on navigating compliance rather than improving productivity or advancing new methods or technologies.

Licencing/Registration

Further inefficiencies can be found in the regulation and licencing requirements for licensed builders. Each state and territory independently sets its own licensing and registration requirements. This overlap results in relatively significant differences in practical experience requirements between each state and territory. This challenges the effective application of the mutual recognition regime by allowing builders to become licenced/registered in a less regulated jurisdiction, but then operate in a more regulated jurisdiction.

To determine whether greater regulation had an impact on insolvency rates, the research team analysed ASIC insolvency statistics each financial year from 2021/2022. Our preliminary findings indicate that while some of the jurisdictions with more stringent practical experience requirements, such as the Northern Territory and South Australia report less insolvency appointments overall, the distinction is less clear for states like Queensland and New South Wales where insolvency rates are relatively high.[8] See Figure 3.

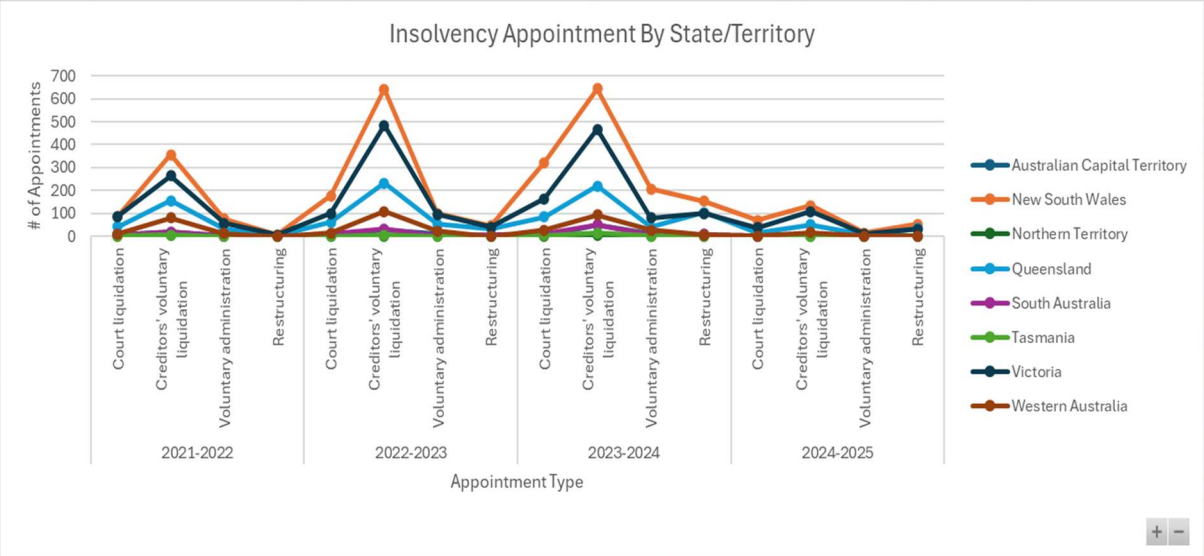

Figure 3 - Insolvency Appointments in each State/Territory

Another consideration in licencing requirements is the financial probity aspects in some states. A number of submissions to a 2015 Australian Government report entitled 'Insolvency in the Australian construction industry, including the Australian Institute of Building, the Electrical Trades Union of Australia and Cbus Super, suggested that an appropriate licensing regime should provide evidence that a licenced builder has adequate capital backing for a proposed

[8] Further research is required in relation to this issue. For example, how many construction companies are registered in each of the states and territories when compared to the number of formal insolvency appointments.

project and require business or financial skills training- similar to the financial probity requirements in Queensland (Australian Government, 2015).

Queensland has a robust financial probity requirement as part of its licencing eligibility assessment. Whilst other states apply the fit and proper person test, provide requirements for net assets, or operate financial assessments through insurance regimes, Queensland's financial probity requirements are more expansive.

However, notwithstanding those requirements, in their report on the benefits of *Queensland's Minimum Financial Requirements (MFR) for Licencing*, Ernst and Young found that an analysis of insolvency data did not provide evidence that Queensland performed better in terms of construction insolvencies than other jurisdictions (in terms of number and size), as might be expected under the MFRs (Ernst & Young, 2022). Therefore, there do not appear to be associated insolvency benefits from Queensland's stringent financial probity regime compared to regimes in other jurisdictions.

Further research is required to understand what impact, if any, the variability of state and territory licencing schemes have on insolvency in the Residential Construction Industry.

Business Capability and Financial Literacy

A recurring and critical theme emerging from our research is the widespread lack of business acumen and financial literacy among licenced builders, particularly among SME operators. Stakeholders consistently express concerns that many licenced builders are ill-equipped, both in terms of understanding and allocating sufficient time, to manage the increasingly complex financial and operational demands of the modern construction and business environment. This includes challenges such as interpreting and negotiating complex contractual arrangements, managing cashflows and risk exposure effectively, or formulating strategic responses to ongoing cost pressures, fluctuating material prices and disruptions in the supply chain, as well as negotiating staffing issues and workplace health and safety responsibilities.

Financial education and business skills

In many of the discussions focused on contractual complexity, insolvency procedures, and the intricacies of the regulatory framework, workshop participants repeatedly pointed to a fundamental shortfall in business capabilities as the underlying issue.

The absence of core business skills not only exacerbates financial vulnerability but also impairs firms' ability to proactively respond to adversity, plan for growth, or even comply with regulatory obligations. The problem is particularly pronounced among smaller operators who may lack access to in-house expertise and/or lack access to external professional advisory services, such as legal or accounting. In particular, family or single-operator businesses may struggle to balance administrative tasks in addition to the technical, let alone strategic, aspects of running a building business which can lead to poor invoicing or debt collection practices, which ultimately can lead to financial distress and failure.

This deficit in financial and business knowledge significantly increases the likelihood of insolvency, particularly under conditions of tight profit margins, delayed payments from clients,

and prolonged approval timelines. As a result, many licenced builders operate in a reactive rather than a proactive strategic mode, which limits their ability to build financial resilience or implement long-term planning into their operating model.

Our workshop participants broadly agree that strengthening financial education and business skills, improving access to tailored risk management training, and expanding business advisory services would be instrumental in building a more robust, capable, and resilient construction sector. These interventions are seen not only as beneficial but as essential for reducing insolvency rates, enhancing productivity and supporting sector wide sustainability, whilst improving trust and quality in the sector.

Educational Standards

One of the most striking findings from our research relates to the current educational requirements for builder licencing, such as the Certificate IV in Building and Construction. These qualifications often place insufficient emphasis on business operations, financial planning, or strategic risk assessment. As a result, licenced builders may be well-versed in technical building competencies but ill-prepared to operate viable, financially sound businesses within an increasingly complex and risk laden environment.

Also key is very low levels of digital proficiency. Builders are seldom even required to know how to use Office or digital project management tools, let alone accounting systems. A lack of digital literacy inhibits the ability to forecast and make evidence-based decisions.

This is evidenced in the Drivers of Insolvency in the Construction Sector section, where the research team identified that poor strategic management of business, poor financial control, and trading losses were three of the most common causes of financial distress in this sector.

This mismatch between licencing education and the practical business demands of the sector presents a clear opportunity for reform. Reviewing and potentially restructuring these qualifications to incorporate more robust training in financial management, contract negotiation, business planning, and insolvency risk could have a material impact not only on individual business outcomes but on broader sector performance and productivity.

Key Interventions to Address Insolvency

Our preliminary research findings underscore the urgent need for targeted policy and programmatic interventions that build business capability in parallel with technical skill. Accordingly, our research will inform the development of a suite of recommendations aimed at improving the financial structures, regulatory processes, and business support systems that underpin the residential construction sector and the stakeholders involved in it.

There are clear opportunities, both regulatory and non-regulatory, for improving productivity in Queensland's construction sector. These include:

- Reforming financing structures (e.g., supporting Method B lending)
- Streamlining regulatory processes

- Upskilling the licenced builders base through targeted business management, business planning, staffing and cashflow training;
- Reforming the educational training for licenced builders through mandated business management training at the VET and Degree Levels;
- Promoting innovation by reducing compliance friction, investing in research and development, and enabling pre-construction agreements and funding mechanisms for early-stage design work.
- Industrialised construction and off-site manufacturing of buildings offers a means to complete projects more quickly and with more certainty. New approaches to how buildings are made can help create more resilience.

Full stakeholder insights and supporting analysis will be included in the final report, to be released in September 2025. This report will serve as a foundational resource to guide future reforms and policy efforts focused on lifting the overall capability and resilience of the sector. The research team will provide the Commission with a copy of its report when it is publicly released.

Further Research

Our preliminary findings indicate that further research is required in the following areas:

- Analysis of the state and territory licencing regimes to identify gaps, loopholes and overlapping requirements that may impact productivity in this sector
- Further empirical research into why phoenixing is prevalent in the construction industry.
- Analysis of each state and territories' educational requirements for licencing and the impact these requirements have on insolvency rates.
- Analysis of the impact that bad faith Registered Training Organisations have on insolvency rates in the sector.
- Analysis of the financing structures and regulatory environment guiding building contracts.

Some of these research avenues will be explored in detail in our final report.

Conclusion

This research underscores the urgent challenges Australia's residential construction industry is currently facing. Despite strong and growing housing demand, the sector is experiencing an unprecedented weakness in supply, resulting in historically low rates of new development. High insolvency rates among construction companies highlight deep-rooted vulnerabilities that extend past pandemic-related disruptions, to highlight systemic issues that have persisted over time. These challenges not only impact housing affordability but also pose risks to broader economic productivity and stability. Addressing the high rates of insolvency in the sector requires coordinated policy efforts focused on regulatory reforms and targeted capability building initiatives.

At the core of the sector's instability are a number of key drivers. Firstly, many residential construction businesses operate within financial structures that are not fit for purpose. The sector also operates within a highly complex regulatory environment, which impose heavy regulatory burdens on businesses, which can be especially burdensome for SME's to navigate. Lastly, a widespread lack of financial and business acumen amongst business owners often results in financially viable companies entering insolvency because they did not appreciate the significance of their financial position. These vulnerabilities contribute directly to the sectors persistently high insolvency rates, which in turn create a significant drag on productivity. Frequent business collapses undermine overall sector capacity, thereby limiting the residential construction sector's ability to respond to Australia's housing needs. Strengthening this sector will require reforms to simplify regulatory frameworks, enhance business education, and build more robust and fit for purpose financial structures to collectively support greater resilience and productivity in the Australian residential construction sector.

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