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Committee Secretary
Transport and Public Works Committee
Parliament House
George Street
Brisbane, QLD, 4000



The Secretary

**SUBMISSIONS REGARDING THE BUILDING INDUSTRY FAIRNESS (SECURITY OF PAYMENT)
AND OTHER LEGISLATION AMENDMENT BILL 2020**

We refer to the abovementioned Bill and the email from the Committee of 14 February 2020 requesting submissions in relation to the Bill and set out below Cornwalls' submissions.

The requested details in relation to the submission are:

- The author is Ian Heathwood, Partner at Cornwalls' Brisbane office;
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On behalf of Cornwalls, the author makes the following submissions in relation to the Bill:

1. **Focus** – The Bill proposes amendments to a number of Acts in addition to the *Building Industry Fairness (Security of Payment) Act (BIF Act)* and the *Queensland Building and Construction Commission Act (QBCC Act)*. Whilst those proposed amendments have significance for members of those parts of the building and construction industry in Queensland, we have confined our comments to the proposed amendments to the BIF Act and the QBCC Act.
2. **Overall impact of Bill** - The Bill would result in substantial improvements to the BIF Act and in particular the project bank account scheme compared with that in the Act. The overall scheme for what are to be “project trusts” in lieu of project bank accounts, should prove less burdensome and more practicable. There are, however, a number of matters which, in our opinion, need to be addressed and hopefully rectified before the Bill is passed into law. There are other issues with the Bill but in our opinion, they are not of sufficient significance to warrant raising with the Committee.
3. **Definition issues** – Unfortunately, some terms have been defined to mean different things in different parts of the BIF Act and some other terms have been defined in a manner which may prove problematic, for example:

(a) In Chapter 2, Part 1, proposed section 8 defines “contracted party” to mean:

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...for a contract, means the party to the contract who is required to carry out work under the contract

- (b) However proposed sections 10C (c), and 30A then seek to add “shades of meaning” to the term “contracted party” (allowing that term to then be used in a potentially inconsistent manner).

It is our **submission** that Parliamentary Counsel should endeavour to remove any such ambiguities arising from these definitions before the Bill is passed into law. If not, there are reasonable prospects of these definitional problems ending up before the courts for interpretation which is not ideal.

We make recommendations in relation to the most problematic definitions below but have refrained from addressing others.

Proposed new Chapter 2, Part 2 Project Trusts

4. **Proposed section 15C – Contracts for small scale residential construction work** – In proposed section 14B, which deals with multiple contracts at the same site or adjacent sites, separate contracts for works on a site or separate contracts for carrying out what would otherwise be project trust work at the same site or adjacent sites, are taken to be a single contract for the purposes of proposed section 14 which is the proposed section that determines whether a contract is eligible for a project trust. (For convenience we shall refer to this type of proposed section as a **conglomeration clause**.)

As we understand it, proposed section 14B was inserted to prevent principals and/or contractors endeavouring to ensure that the project trust scheme does not apply to a construction contract by dividing up the works into multiple contracts thereby ensuring that each particular contract does not meet the financial qualification to eligible to be project trust work under proposed section 14.

Proposed section 15C, which deals with small scale residential construction work, does not have a similar provision. In the absence of such a provision in or applying to proposed section 15C, it is reasonably likely that principals and/or contractors who wish to ensure that a particular project does not fall within the project trust scheme, will exploit this “loophole” for that purpose by the use of multiple contracts all of which have a contract price below the financial qualification to be eligible to be project trust work under proposed section 14.

It is our **submission** that proposed section 15C should also have a conglomeration proposed section similar to that contained in proposed section 14B to prevent such avoidance.

5. **Proposed section 15E – Contracts for building work services** - This provision, if enacted, will exempt from the project trust scheme, contracts pursuant to which the only work carried out is “building work services”.

That term is defined by reference to the definition for that term in the QBCC Act plus other work prescribed by regulation with the exception that the reference to “building work” in that QBCC Act definition is taken to be a reference to “project trust work”.

“Building work services” is defined in the QBCC Act to mean, “1 or more of the following for building work –

- (a) administration services;
- (b) advisory services;
- (c) management services;
- (d) supervisory services.”

In turn, “administration services” is defined in the QBCC Act as follows:

“administration services for building work or tribunal work, includes the following –

- (a) preparing tender documentation and calling and selecting tenders;
- (b) arranging and conducting on-site meetings and inspections;
- (c) arranging payment of subcontractors;
- (d) arranging for certificates, including certificates from a local authority, to be issued;
- (e) administration for the work usually carried out by –

- (i) a construction manager; or
- (ii) a project manager under a project management agreement;
- (f) other administration for the work usually carried out by a licensed contractor in the course of the contractor's business."

And, "advisory services" is defined in the QBCC Act as follows:

"advisory services, for building work or tribunal work, includes the provision of advice or a report about building work other than—

- (a) the carrying out of a completed building inspection; or
- (b) the inspection or investigation of a building, and the provision of advice or a report, for the following—
 - (i) termite management systems for the building;
 - (ii) termite infestation in the building."

And, "management services" is defined in the QBCC Act as follows:

"management services, for building work or tribunal work, includes –

- (a) coordinating the scheduling of the work by building contractors including as agent for another person; and
- (b) management of the work usually carried out by –
 - (i) a construction manager; or
 - (ii) a project manager under a project management agreement; and
- (c) other management for the work usually carried out by a licensed contractor in the course of the contractor's business."

And, "supervisory services" is defined in the QBCC Act as follows:

"supervisory services, for building work or tribunal work, includes –

- (a) the development, implementation and management of a system for the supervision of the Works; and
- (b) the coordination or management of persons undertaking the supervision of the work; and
- (c) the personal supervision of the Works; and
- (d) any other supervision of building work under this Act."

In considering how the Bill, when passed into law, will operate in a practical sense, it is appropriate to consider the prospects of principals and/or contractors seeking to avoid the need to establish a project trust account and the administrative tasks, time and expense associated therewith.

It is already the practice that the very large "builders" such as Abigroup, Hutchinsons, Balderstone Hornibrook to name some examples (**Major Contractors**), sometimes establish the contractual relationship between themselves and the principal on the one hand and what one would ordinarily consider to be the first-tier subcontractors on the other, through an arrangement by which the Major Contractor in question is the "managing contractor". Under this type of arrangement, the Major Contractor is responsible, among other things, for the management of the direct contracts between the principal and the parties we would ordinarily consider to be first-tier subcontractors. The obligations of the Major Contractor under such an arrangement are very much like the work described in the definition of "building work services".

It is known in the industry that in many jobs the Major Contractors do not do any building in the traditional sense at all as in they do not have what one would ordinarily consider to be building labour on the site but merely coordinate all the various "subcontractors" and manage the contracts and report to the principal.

If all the services being provided by a Major Contractor pursuant to such an arrangement fall within the definition of "building work services", as we believe is easily conceivable, the Major Contractor will not be required to establish a project trust account for that project and that obligation will fall to the businesses which one would ordinarily consider to be first-tier subcontractors, such as the plumbing contractor, the air and mechanical contractor, the fire services contractor, the electrical contractor, the formwork contractor, the landscape contractor, and on it goes.

As we understand it one of the objectives of the review leading to the Bill has been to minimise the administrative burden on all lower tiers of the construction industry as a whole and this was intended to be achieved by having a structure by which the first tier subcontractors and any subcontractors beneath them, would not be required to establish project trust accounts whilst the main contractor would be required to do so for eligible contracts.

If our expectation proves to be true, what we believe to be the intent of the Committee might be subverted and that as a consequence, with multiple contracts on any particular job to which the project trust account scheme will apply, the overall administrative costs and burden of the scheme will be substantially increased. Further, the intent to impose the obligations of trust accounts on the main contractor will be subverted and passed “down the contractual chain” to those whom the scheme is intended to protect from the risks of a main contractor failing, such as the Cullen Group, Bloomer Constructions, JM Kelly and Ri-Con Contractors.

We suspect but do not know that the reason this exemption in proposed section 15E has been inserted in the Bill may be to avoid unintended consequences such as persons/businesses involved in the industry providing advisory (or perhaps professional) services being unintentionally obligated to establish project trust accounts when there is no utilitarian purpose in them having to do so.

If so, it is our **submission** that the Bill should be amended to specifically refer to those classes of persons whom it is intended be excluded.

If our assumption is incorrect (i.e. that proposed section 15E has been inserted to avoid unintended consequence of the nature outlined above), then it would be our **submission** that the Bill be amended to include some mechanism which would prevent Major Contractors from using the type of arrangement to which we have referred above, to avoid what would otherwise be their obligations to establish project trust accounts.

6. **Proposed section 15F - Contracts with less (sic) than 90 days until practical completion**

This proposed section appears to have been intended to exempt from the requirements to establish a project trust account, contracts which only run for 89 days or fewer.

There is a problem in the drafting relating to how to determine whether the contract is for “less than 90 days”. Proposed section 15F (1) (b) requires that the end date for calculating that period is “the day practical completion for the contracted work would occur”.

Further, here is no clarity whether this is the anticipated “day for practical completion” when the parties entered into the contract or whether it is the actual “day for practical completion” as matters transpire.

It is quite common for contracts to run longer than anticipated at the time the contract was entered into either because an extension of time is granted or because the contracted party is late in completing the Works.

It is our **submission** that this proposed section needs to be re-drafted to make it clear that the end date for determining this period is either the anticipated “date for practical completion” at the time the contract was entered into or a time at which it becomes reasonably apparent to the contracted party that the “day for practical completion” will or is reasonably likely to be 90 days or more after the Works were commenced.

If it is intended that the test to determine how many days within which the contracted Works are expected to take until the Works are practically complete, at the time the parties enter into the contract, we **submit** that the “day for practical completion” should be defined as such in the Bill.

However, if the real intent of the legislature is that a contract which becomes one which will or has in fact run for more than 89 days, will be eligible for a project trust account (provided the other requirements for a project trust account are met), we **submit** that a further amendment is required to the effect that once that time period expires (or perhaps when it becomes reasonably apparent to the contracted party that it will do so or is reasonably likely to do so), the contract is then eligible for a project trust account (provided the other requirements for a project trust account are met) and a project trust account must be set up at that time.

Another shortcoming of proposed section 15F is the use of the terms “practical completion” and “day for practical completion”. The present wording is confusing because:

- (a) 15F (1) (b) speaks of the “day practical completion for the contracted work would occur”. In that proposed subsection, “practical completion” is being referred to as a “stage” of the relevant work; but
- (b) 15F (2) then defines “practical completion” by reference to (variously) “the day for practical completion as provided for under the contract” or “the day the contracted work would reasonably be estimated to be completed”.

In our experience “practical completion” is the relevant stage and “date for practical completion” is the day/time by which practical completion is expected to be achieved.

The extent to which proposed section 15F (1) (b) is problematic and confusing can readily be seen when one inserts the definition of “practical completion” into the wording of 15F (1) (b). Proposed section 15F (1) (b) (read literally) would (nonsensically) provide:

the day [the day for practical completion as provided under the contract] for the contracted work would occur.

We **submit** that the proposed section should be amended to define “practical completion” in terms of a stage of the contracted works. The language of proposed section 15F (2) could be used as a basis for such an amendment (noting course that there are some issues with proposed section 15F (2) which would need to be worked through before this could occur). The definition of “practical completion” could pick up on the definition from the contract, and if there was no such definition in a particular contract, a statutory definition could be included. In regard to a possible statutory definition, the definition of “practical completion” contained in AS4902-2000 might be a useful starting point for drafting such a definition.

As a consequence of the above, we also **submit** that proposed section 15F (1) (b) should be amended so that it reads “the date for practical completion of the contracted works” and that that proposed section 15F (2) should be amended so it becomes the definition of “date for practical completion” (as opposed to “practical completion” which it presently defines).

On balance it is our view and hence our ultimate **submission** in relation to this issue, that the proposed section should be amended so that if the contract provides that the date by which the contracted party is required to bring the Works to practical completion is a day which is fewer than 90 days after commencement of the Works, the exemption will apply but that, if it becomes reasonably apparent to the contracted party at any time after commencement of the Works that actual practical completion will be achieved on the date which is 90 or more days from commencement of the Works, there should be an obligation on the contracted party to establish a project trust account even though that contract had not previously been eligible for one.

7. **Proposed section 25B – No assignment of entitlement by contracted party** – Although factoring and invoice discounting has traditionally been minimal in the building and construction industry, our observation is that it has become more common in the last several years.

It is our **submission** that, if expert advice in this regard has not already been obtained, the effect of this proposed section in relation to factoring and invoice discounting arrangements needs to be very carefully considered by lawyers specialising in banking and finance and in particular, factoring and invoice discounting (such as for example, Greg Clayton of our Melbourne office, the leading expert in this field in Australia, or Paul Agnew of our Brisbane office) in order to determine whether this proposed section and its equivalent in relation to retention accounts (see below) has any un-anticipated consequences for participants in the building and construction industry who finance their businesses by factoring or invoice discounting or similar arrangements. If it does, this proposed section and its equivalent in relation to retention accounts, could cause unintended failures of businesses in the building and construction industry, contrary to the overall intention of the BIF Act and the Bill.

Proposed new Chapter 2, Part 3 – Retention trusts

Whilst the general intention with respect to the requirement to establish retention trusts may be admirable, it seems to us that the Bill does not execute the concept particularly well.

8. **Proposed section 31 – What is a *retention trust*** - A primary problem is that an inappropriate definition has been used to define “retention trust” in proposed section 31. The consequences of that are significant and deleterious to the overall beneficial effect of these provisions in the Bill.

A “retention trust” is defined as a trust “over retention moneys withheld from payment to a contracted party under a *building contract* (emphasis added) if the amount is withheld in the form of cash...”.

“Building contract” is defined in proposed section 30 by reference to proposed section 67AAA of the QBCC Act.

That definition defines “building contract” to mean a contract or other arrangement for carrying out *building work* (emphasis added) in Queensland” (then goes on to exclude domestic building work or a contract exclusively for construction work that is not building work).

Whilst the definition of “building work” in Schedule 2 of the QBCC Act includes, among other things, in subparagraph (c), “the provision of lighting, heating, ventilation, air-conditioning, water supply, sewerage or drainage in connection with the building”, (which might suggest that industry participants such as electrical contractors as an example, would have the benefit of the retention trust scheme, that definition also provides that building work “does not include work of a kind excluded by regulation from the ambit of this definition.”

Again, as an example, regulation 20 of Schedule 1 in the *Queensland Building and Construction Commission Regulation 2018*, provides that “Electrical work under the *Electrical Safety Act 2002*” is excluded from the meaning of “building work” pursuant to section 5 of that Regulation.

The consequence of this is that cash retentions withheld from a person doing electrical work under the *Electrical Safety Act 2002* (which in essence is everything that an electrical contractor does), is not subject to the retention trust regime.

So, retentions from contracts between a contracting party and a contracted party undertaking such work, are not subject to the retention trust regime.

It is our **submission** that there is no logical basis upon which electrical contractors, as an example, should be excluded from the protections intended to be provided by the retention trust regime and further, that such businesses should not be excluded from that regime.

Electrical contractors are not the only ones who fail to obtain the benefit of the retention trust regime.

Those who are excluded include those involved in, among other things, the installation, testing et cetera of emergency detection and warning systems (regulation 21); conducting work in relation to the construction, maintenance or repair of a dam (regulation 22); the construction, maintenance or repair of communications installations for a public company or other public body engaged in radio and television broadcasting or in some other form of communications business or undertaking (regulation 23); scaffolding (regulation 26); hanging curtains or installing, maintaining or repairing blinds or internal window shutters other than fire shutters (regulation 29) and; laying carpets, floating floors or vinyl (regulation 30), and on the list goes.

It does not seem to be reasonable to exclude such businesses from the protection of the retention trust regime and on that basis it is our **submission** that it is not fair, just or equitable that they are excluded from those protections.

And, our second and more important **submission** in this regard is, that the definition of “retention trust” needs to be changed so that it does not rely on section 67AAA of the QBCC Act but allows a broader spectrum of those in the building and construction industry to have the protections and benefit of the retention trust scheme. *This has been included in previous*

submissions we have made to the Committee and seemingly accepted, but for reasons unknown, appears now to not be accepted.

- 9. Proposed section 36 – Limited purpose for which money may be withdrawn from retention trust account** - By proposed section 36 (2) of the Bill, the trustee/contracting party operating a retention trust account is not permitted to withdraw an amount from the retention trust for payment which is due to them under a contract for correcting defective works or an omission in the contracted works until the end of the defects liability period.

The effect of this would be that the trustee/contracting party which holds the retention amount, would be required to rectify the defects or problem or engage others to do so at the trustee/contracting party's cost, and bear those costs until such time as the defects liability period is over. This does not seem equitable or reasonable for the trustee/contracting party given the purpose for which retentions are held during the defects liability period.

For this reason, it is our **submission** that this subsection should be either deleted or modified so as to enable a trustee/contracting party operating a retention trust account to use the moneys in the retention account for the intended purpose set out in the contract. That is, rectifying defective work *provided that* the contracted party has failed to carry out that rectification work, in accordance with its contractual obligations.

- 10. Proposed section 41 – Training before withholding retention account** – This provision imposes an obligation on anyone who or which is obligated to set up a retention trust account to, before they do so, undertake a training course as prescribed by Regulation.

Failure to comply could result in significant penalties which may be understandable. However, it is our **submission**, particularly given the penalties which may be involved, that the QBCC (or whichever entity is charged with responsibility in this respect) should ensure that participants in the building construction industry are well aware that *this obligation is for the actual person who is responsible for administering the retention trust account to undertake the training, not the entity holding the licence.*

More significantly, we observe that the quantum of money involved in retention accounts will always be a comparatively small proportion of the contract sum and indeed of the amount paid into a project trust account (should one apply) yet, there does not appear to be any equivalent training requirement with respect to operating project trust accounts.

It is our **submission** that if training obligations are going to be imposed on those responsible for operating a withholding trust account, similar training should be mandated for those operating project trust accounts.

- 11. Proposed section 58A – Liability of executive officer for offence committed by corporation against executive liability provision** - If the Bill is passed into law it will be an offence to pay less than the amount which has been scheduled for payment in a payment schedule. That offence will be punishable by a fine of up to 100 penalty points – which is currently \$13,055.00 and, depending on one's views, that may be reasonable.

A person who is an "executive officer of a corporation" who does not take "all reasonable steps" to prevent a corporation committing such an offence, can be personally liable for that offence.

There are two difficulties with this. The first is that "executive officer of a corporation" is not defined very clearly. The current definition is, "a person who is concerned with, or takes part in, the corporation's management, whether or not the person is a director or the person's position is given the name of executive officer."

To some extent, all administrative staff, for example, project managers, contract administrators down to clerks assisting a project manager or a contract administrator, could fall within this rather broad definition.

It is our **submission** that this term needs to be more clearly defined to, among other things, make it clear that at the very least, it is restricted to a person who has financial control or some degree of financial control over the determinations and operations of the party to the contract.

Further, the term “all reasonable steps” has been defined by the courts in a number of cases in relation to the now repealed provisions of the QBCC Act relating to permitted individual matters in a very expansive sense with the consequence that if those cases are applied in cases about what an “executive officer” has to do in order not to be guilty of this offence, it might be difficult to demonstrate that a person took “all reasonable steps” even when any reasonable application of the “pub test” would suggest they have done everything they could.

It is our **submission** that this level of uncertainty as to whom this obligation rests on and the extent to which they are required to take “all reasonable steps” needs to be addressed more specifically in the Bill before it is passed into law.

- 12. Proposed section 65 – Amendment of section 75 (Making payment claim)** - This proposed section of the Bill proposes to insert into section 75 of the BIF Act, which is about making a payment claim, an obligation to provide, along with the payment claim, a “supporting statement”.

In essence, this is a statutory declaration that everybody working or providing services to the person making the supporting statement, has been paid what they should be paid and providing certain other, normally required information, all of which is perfectly understandable and reasonable.

Under the Bill, a participant in the industry has to do this if the matter relates to a subcontract under a construction contract but not if the construction contract is also a subcontract for another construction contract. Given the definitions and certain difficulties which relate to those definitions, it is not entirely clear to which contracts or subcontracts it does or does not apply to.

Further, we fail to understand why the obligation to provide such a supporting statement is limited as it is under this provision. We assume that an attempt has been made to adopt the New South Wales approach which applies to head contractors, however this is only our assumption and has not historically been made clear.

It is our **submission** that this obligation should be imposed right through the contractual chain and that the Bill should be amended to effect this.

Further, whilst there is a financial penalty for a person who breaches this provision, which has its merits, it is our **submission** that the obligation to provide such a supporting statement would be much more likely to be taken seriously by industry participants if the consequence of providing a payment claim without providing the supporting statement was that the payment claim was invalid.

This would be an extremely strong incentive for industry participants to comply with this provision and to actually pay people lower in the contractual chain (such as subcontractors and sub-subcontractors) who are entitled to be paid but whom are not paid when they should be - on time, every time (as the Minister is prone to say).

Further, we **submit** that any supporting statement should be in the form of a statutory declaration. We assume from the language of (a) (which provides that a supporting statement is a written document “declaring” certain things to be the case) that this is what is intended. If this is the intent, then the Bill needs to be amended to ensure that this is clear (particularly if, as we **submit** above, the failure to provide a supporting statement ought to be grounds for invalidating a payment claim).

If that was not the intent, then we **submit** that it should be the intent and that the amendment should be made in any event. The provision of a statutory declaration will assist parties to rely upon the same to hold accountable the people who signed such documents without proper consideration as to the truth of the matters declared therein. Indeed, there is case law to suggest that the signing of a statutory declaration (if the facts contained therein prove to be incorrect) can be a source of personal liability for the declarant.¹

It is our **submission** that such an amendment to the Bill should be drafted so that a failure to

¹ See *470 St Kilda Road Pty Ltd v Robinson* [2017] FCA 597

comply with the provision would not have the adverse consequence of the industry participant who (deliberately or inadvertently – which is most likely particularly at the lower end of the contractual chain) fails to comply with the provision, loses the relevant reference date upon which the payment claim is dependent. This would mean that once they get it right so to speak and submit a valid payment claim including the supporting statement under the Act once the Bill is passed into law, they suffer no detriment for that earlier failure.

We thank the Committee for accepting Cornwalls' submissions. Should the Committee have any questions or require any current occasion, please do not hesitate to contact the author.

Yours faithfully



CORNWALLS (QLD)

Contact

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Partner

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