

PUBLIC WORKS AND UTILITIES COMMITTEE

QUESTION ON NOTICE

Asked on 20 September 2017

THE PUBLIC WORKS AND UTILITIES COMMITTEE ASKED THE DEPARTMENTAL WITNESSES —

QUESTION 1:

Could the department or Queensland Building and Construction Commission (QBCC) provide information about the following:

1. Percentage of the total number of building and construction businesses that enter insolvency;
2. The total number of failures in the building and construction industry in Queensland;
3. The value of the insolvencies in the building and construction industry in Queensland;
4. How much money is paid to subcontractors after insolvency?

ANSWER:

- The Deloitte report entitled *Analysis of security of payment reform for the building and construction industry* published in November 2016 (Deloitte report) identified that in the Building and Construction industry there is an incentive for head contractors to delay subcontractor payments to supplement their own business's cash flow and working capital. This is particularly prevalent where the head contractor is nearing insolvency (page 3).
- The Senate Standing Committee on Economics Report¹ (Senate report) regarding insolvency in the Australian building and construction industry dated December 2015 noted that the Australian building and construction industry's rate of insolvencies is out of proportion to its share of national output.
- The Deloitte report also identified that figures referenced in the Senate Report suggest that over the past decade, the building and construction industry has accounted for between 8%-10% of annual GDP and roughly the same proportion of total employment, but that over the same period the industry has accounted for between one-fifth and one-quarter of all insolvencies in Australia.
- The Senate Report suggests that the industry nationally is "burdened every year by nearly \$3bn in unpaid debts, including subcontractor payments, employee entitlements and tax debts averaging around \$630m a year for the past three years".
- Australian Securities and Investment Commission (ASIC) has prepared *Report 507: Insolvency statistics: External administrators' reports July 2015 to June 2016* <http://www.asic.gov.au/media/4108700/rep507-published-14-december-2016.pdf>
- This statistical report provides a broad picture of corporate insolvencies in and covers the financial year 2015–16. The report also identifies that
 - The construction industry had the second highest number of external administrators reports lodged in the 2015/2016 financial year out of all industries in Australia
 - Of the top 12 industries, the three industries with the highest number of reports where companies owed more than \$10 million to unsecured creditors were 'Other (business and personal) services' (36 reports), 'Construction' (21 reports), and 'Mining' (20 reports).

¹ The Commonwealth Senate Standing Committee on Economics – I just want to be paid, Inquiry into insolvency in the Australian construction industry – the Senate, December 2015, sourced from http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Insolvency_construction/Report

QUESTION 2:

How many subcontractors in Queensland would be involved with construction projects under \$1 million.

ANSWER:

- The Department of Housing and Public Works (the department) is not aware of how many subcontractors are involved in construction projects valued at over \$1 million.

QUESTION 3:

Can the department please respond to the data and assumptions made by Hutchinson Builders.

ANSWER:

- The department notes that the figures provided by Hutchinson are indicative only and apply to the entire 'Hutchinson business' and therefore may include projects being conducted outside of Queensland. These projects would not be captured by the reforms being proposed. However, it is noted that on the Hutchinson Builders website accessed on 21 September 2017 at <https://www.hutchinsonbuilders.com.au/projects>, there are 123 projects under construction in Queensland.
- It is difficult for the department to provide a detailed analysis of the estimated costs to Hutchinson Builders.
- The analysis undertaken by Deloitte Economic Access concludes that even when costs are incurred by head contractors there is a net benefit to Queensland of \$4.2 billion over a 20 year period and it will also create up to 2,373 additional jobs by 2036-37.

QUESTION 4:

Which banks have been consulted regarding the implementation of Project bank accounts?

ANSWER:

- The Commonwealth Bank of Australia, Westpac and ANZ have been consulted regarding the introduction of project bank accounts for construction projects (excluding engineering) in Queensland.
- The department is confident that these and other institutions in the financial services market are able to provide support to the industry.

Correction

- The department wishes to correct the record regarding the estimated number of additional hours for administration of project bank accounts. The Deloitte report has identified that 7 additional hours will be incurred each month per project for head contractors who manage a project bank account contract.