

Capacity constraints in the civil, land development & infrastructure industries are a threat to the industry's sustainability.

Victoria's civil contracting, land development and infrastructure industries continue to face both structural and market-based challenges.

Recent events have laid bare how these challenges can expose industry, community and government to financial instability and project delivery issues. Capacity within the sector requires more sustainable, long-term solutions, with industry and government both benefiting from creating a new norm in Victoria.



Key pressures are being felt across the economy and community as a result of industry challenges:



Over 25% of Australia's 200 largest construction companies operated at a loss over the past two years, and 1,709 construction businesses entered administration in April 2023.



Worsening home and asset affordability, as borrowing constraints combine with construction productivity losses, due to a lack of supply and increased costs.



The HIA Trade Availability Index remains negative at -0.62 in the June 2023 quarter, highlighting continued strain on labour resources.



Renewed risk of Victoria's quarry materials supply being depleted in the next 5 years.



A 30-40% increase in building costs borne by developers and the community following the completion of pre-COVID fixed-price contracts.



Long-term taxation and fiscal implications for government, with over 50% of state tax revenue related to construction activity in the past financial year.



A loss of skills and knowledge, as talent leaves with no legacy plan in place.

Two overarching issues that threaten industry sustainability have been identified :

1

Governance, procurement and policy settings are in misalignment with long-term needs

2

Chronic labour and materials shortages have led to construction productivity losses and significant cost escalation

Industry and government can work together to make a meaningful change in Victoria. This is increasingly important to meet the needs of both community and business.

Four problem areas have been identified, with short-, medium- and long-term solutions suggested to alleviate these pressures:

	Short term	Medium term	Long term
<p>Contracting landscape Pressures in fulfilling contracts and making financially feasible contracts must be resolved to better align to government, industry and community expectations.</p>	<ul style="list-style-type: none"> + Changes to presale requirements. + Gap insurance, contingent on quantity surveyance. 	<ul style="list-style-type: none"> + Changes to the insurance landscape to ensure that builds can continue. 	<ul style="list-style-type: none"> + Reshaping the construction procurement process to better manage the supply of materials and labour.
<p>Governance and policy Policy inefficiencies and governance practices are impeding the creation and delivery of value.</p>	<ul style="list-style-type: none"> + Improving government transparency regarding infrastructure projects. 	<ul style="list-style-type: none"> + The formation and promotion of public/private partnerships. + A revamped value-for-money re-evaluation process. 	<ul style="list-style-type: none"> + Taking a system-wide lens to development, policy and procurement, rather than project-specific consideration.
<p>Labour supply shortages Issues are arising within the industry due to increased demand for labour amongst a chronic undersupply. Easing barriers to entry and maintaining sector knowledge must be supported long-term.</p>	<ul style="list-style-type: none"> + Improving pathways into the industry for those with existing and relevant skillsets. 	<ul style="list-style-type: none"> + Providing comprehensive and robust apprenticeship programs with a clear skills pipeline, including direct industry oversight and engagement. 	<ul style="list-style-type: none"> + Creating a mentorship and knowledge-sharing industry community with both public and private industry players.
<p>Materials and equipment supply shortages Issues arising because of local and international material supply shortages, and procurement barriers. Potential solutions include:</p>	<ul style="list-style-type: none"> + Better management of unnecessary premiums paid on materials via better-prioritised allocation. 	<ul style="list-style-type: none"> + Expedite the approval of new domestic resource sites and expansions (such as quarries and sawmills). 	<ul style="list-style-type: none"> + Take a whole-of-industry approach to resources and capacity within the industry + Undertake a detailed system-wide review of policy, that considers indirect costs and solutions to capacity bottlenecks.

Industry and government have the capability and shared responsibility to ensure that development in Victoria is being delivered in a way that is sustainable in the long-term and maximises positive outcomes on communities.

Immediate impacts across the industry must be overcome to ensure that new developments can be delivered efficiently in Victoria. Without a long-term solutions focus, however, Victoria will be at risk of current pressures repeating themselves.

A sustainable industry relies on industry, government and community working together toward the common goal of a more productive and prosperous state.