

Slattery construction whitepaper

Navigating the risks of construction projects: A guide to project health

Introduction

The Australian building industry has been hit hard by a surge in insolvencies, with figures suggesting that the sector is on track to break a decade-long record. The increase in insolvencies is part of a wider trend across the industry and is due to a combination of factors.

During the COVID-19 pandemic, struggling businesses were provided with significant stimulus support and tax relief by the government, while the tax office was lenient with payments and directors' insolvency reporting requirements were waived.

Now that these measures have ended and interest rates and construction costs are rising, it is likely that the increase in insolvencies is simply correcting businesses that have been treading water for the last few years.

This guide will help identify the characteristics of a healthy construction project and the warning signs of a project in trouble, offering practical insights and guidance to help mitigate the risk of insolvency.

Key State contacts

If you would like further information or to discuss anything in this whitepaper, please reach out to any of our key state contacts:

National:

Sarah Slattery, CEO | +61 418 330 478

Victoria:

Barry Laycock, Director | +61 438 232 407

Tasmania:

Tom Dean, Director | +61 423 444 965

New South Wales:

Julian Crow, Director | +61 418 495 700

Queensland:

Richard Kemp, Director | +61 418 948 319

Western Australia:

Edward Dunne, Director | +61 417 416 569

What does a healthy project look like?

Proactive client engagement: The client engages regularly with the contractor and the broader team, promoting open communication. This ensures that issues are identified and resolved early rather than letting them fester.

Reasonable contract structure: A contract structure with a reasonable risk transfer enables both parties to manage risk best suited to them. This gives more breathing space to contractors, allowing them to be more flexible.

Give and take: There is give and take on the project from both parties, indicating that the project is progressing well. A contractor who fights tooth and nail for every item is not conducive to a healthy project.

Reasonable contract price: Generally, a reasonable contract price results in fewer issues during delivery.

What does a project that's in trouble look like?

- Aggressive claims from the contractor. Overclaiming on progress claims and variations consistently and/or significant claims for offsite materials.
- Slow progress on site, falling behind the program and not meeting milestones.
- Poor performance on site. Using the cheapest subcontractor to meet budgets, resulting in poor on-site performance.
- Non-payment of subcontractors, resulting in unfinished work.
- Inadequate resourcing of the delivery team, causing slippage in design development, procurement or other vital areas of the project.
- High turnover of site staff, putting pressure on the site team by under-resourcing.
- Contractors struggling to raise bank guarantees.
- Contractors taking on too much risk that they are unable to manage, i.e., taking unlimited wet weather risk.
- Unwillingness of client to assist a contractor who is clearly in trouble. Sometimes it's cheaper to pay the contractor extra to get them across the finish line than risk the business going under and having to deal with the ramifications of securing the site and retendering.
- Ignoring warning signs early on. If the contractor is 15% cheaper than everyone else, including the QS, it may be 'too good to be true' and will likely end up as a problem project.

Conclusion

Identifying the warning signs of an unhealthy project is a crucial part of mitigating risks associated with contractor insolvencies.

By actively promoting best practices and addressing issues early on, troubled projects can be turned around quickly, reducing financial risk for all parties.