Scenes from Queensland in January 2011. Photography by Jon Hargest (© Newspix)

QLD Construction: BOOM OR BUST?

Following the devastating tropical cyclone Yasi and widespread floods in Queensland at the start of 2011, much-needed recovery funding should bring a windfall of work into the state's battered construction industry for the next 18 months – but is this a signal for optimism or caution?

WORDS KEITH BAILEY

It is interesting to see how natural disasters can create winners and losers. While the devastation in Queensland caused by cyclone Yasi and widespread floods has been heartbreaking for many, recovery funding should bring a windfall of work into the state's battered construction industry for the next 18 months.

But many are cautious about the future of construction in Queensland – particularly in the wake of the Global Financial Crisis (GFC), which highlighted areas of weakness.

Queensland's construction industry enjoyed several years of positive growth leading up to the GFC. This led many business owners to be optimistic, committing forward expenditure on equipment, assets or land stock and funding these commitments through various forms of debt.

However, the GFC negatively impacted on many businesses. Some found themselves overcommitted with debt or cash outlays due to a sharp reduction in income.

The industry experienced considerable turmoil and restructuring post-GFC and further difficulties following the chaos of Yasi and the subsequent floods in January 2011. Queensland's 21 percent share of the national market is down and current building approvals are only on par with 2005 levels, according to ABS data.

With both the GFC and natural disasters, many companies had to react with major debt reduction exercises, sale of assets or staff lay-offs to improve cash flow and survive. The Queensland construction industry has seen many businesses collapse, some quickly and some many months later, a consequence for those who were unable to adjust.

The Queensland Building Services Authority (QBSA) 2010/11 annual report indicates that individual licencees excluded from holding a licence due to financial failure has trebled since 2007/08, while permanent exclusions have doubled due to individuals being involved in a financial failure a second time.

Opportunities ahead

The disaster reconstruction work in Queensland incorporates a wide range of civil works and residential construction and maintenance, including road reconstruction, fencing, general cleanup and extensive residential works such as house refurbishments, wall repairs, electrical repairs and replacement of electrical equipment, painting, gardening and, in some extreme cases, the relocation of homes.

As the intensity and demand of these tasks exceeds the capacity of many organisations, we have seen the industry create many joint ventures and various extended forms of collaboration within the supply chain, particularly with large organisations and those focusing on road reconstruction.

Recent media articles even indicate budget expectations of up to 30 percent margins to meet this concentrated demand for road works and the Local Government Association of Queensland has "concerns about cost blowouts".

There are also concerns about the capacity of Queensland's construction industry to respond to demand. This is fuelling debate about further skill shortages and clashes with the needs of the mining industry, which in turn suggests expectations of wage increases and longer lead times to get jobs done.

With the exception of those directly affected by Mother Nature, it looks like many contractors will also benefit in the short term, particularly in specific areas along the east coast.

Most reconstruction funding is being obtained from State and Federal governments for road reconstruction, and insurers for residential repairs.

Parallel with this, Reserve Bank Australia credit statistics indicate national owner-occupied lending commitments for existing dwellings diminished by 30 percent compared to 2008/09 peaks, and is now comparable to 2006 lending levels.

A surge in the national dwelling approval figures in August 2011 has been partly influenced by the unexpected policy-related rebound from the $10,000 Queensland Government Building Boost Grant (this is available to buy or build a new home from 1 August 2011 to 31 January 2012).

Learning from the past

ASIC insolvency statistics for the past six years indicate construction is consistently the highest industry for financial failures, representing 20 to 24 percent of all national administrations. Administrators nominated the top causes of company failure as:

- Poor strategic management of business (43.8 percent);
- Inadequate cash flow or high cash use (40.6 percent);
- Poor financial control including lack of records (33 percent); and
- Trading losses (30.2 percent).

The QBSA annual report on the Queensland construction industry says the increase in permanent exclusions for holding a licence (i.e. those involved in a second financial failure) reveals a lack of planning and business management skills among many contractors who have been unprepared for a downturn in the industry.

There is a strong need for improved management skills and decisions, and financial monitoring.

Business as usual

Businesses are easier to manage when general workload and trends are more stable, but the risks and skills required vary widely when there is noticeable change in the business cycle, up or down.

No matter what the business cycle is, basic prudent business management principles still apply. Given the lessons learnt from business collapses in the Queensland construction industry, it would pay for owners to consider these guidelines when they write that next quote or commit to the next project:

- Stick to your core capability – but if you shift your focus or change strategy, consider setting up an advisory board to get objective advice on the wisdom and viability of your plans;
- Ensure your financial management and job reporting capabilities are accurate and timely and take action when warnings appear. History indicates the longer it takes to react or seek assistance, the less likelihood of recovery;
- Clearly understand the scope of work and define exclusions and limitations in quotes;
- Be clear as to who is paying the account and what the payment terms are;
- Calculate all your costs and ensure you know the overheads and margins you need to achieve. If the overhead structure is changing get professional advice so you know the correct numbers to apply in your pricing;
- There is no need to discount prices to win all jobs; within reason, the community is expecting to pay a premium;
- If you need extra equipment, can you get away with subcontracting or hiring? Will secondhand equipment get the job done or can you set up an arrangement with an industry peer?;
- Monitor cash flow; an increase in work should increase cash flow in the short term, but don't forget it is also there to pay wages, expenses, GST and taxes which follow;
- Ensure you monitor compliance with the Queensland Buildi Services Authority (QBSA) Allowable Annual Turn Over (AA requirements, and work within your licence agreement. Afte the GFC, the QBSA significantly stepped up its surveillance activities, and in June 2011 received an independent review report on its own capability to cope under increasing deman and economic changes;
- Don't assume that you will be granted a loan. Find out where you stand before you start making investment decisions. Banks are st applying rigorous screening on applicants as a result of the GFC;
- If you are successful in seeking a loan for working capital or equipment, make sure the terms and repayments reflect your forecast revenue and repayment capability after the boom – i there is one. In hindsight, this is where many people were caught in the GFC.

Forecasts indicate mixed messages about the future of the Queensland construction industry, including the expectation of interest rate cuts. Clearly there are both opportunities and cautions ahead. Those who manage the business basics correctl will prosper and survive; those who ignore them will do so at their peril. ●

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SLOW DOWN FELT ACROSS QLD

A Brisbane based hire firm says the slow down in new home construction has been felt in industries beyond building.

Centenary Hire, which celebrated 30 years of operation and the first anniversary under the management of a second generation family member in 2011, supplies tools, machinery and scaffold to domestic and small scale commercial builders, as well as contractors and tradesmen.

"The major challenge in our region is the slow down of new home construction. This has become evident through home loan and building approval empirical data as well as by word of mouth from our account customers who traditionally rely on this area to generate the majority of their income," says Matt Gordon, general manager of Centenary Hire.

But Matt says there are some opportunities on the horizon in Queensland. "The State Government Urban Land Development Authority (ULDA) has outlined three major development areas to the south and west of Brisbane, all earmarked for the development of low cost affordab housing," he says.

"These areas are Greater Flagstone, Ripley Valley and Yarrabilba and between them will accommodate a projected population of 290,000 residents. There is also another major housir development planned in conjuncti with the expansion of Amberley ai force base."