Contractors at ‘breaking point’, seek relief as costs spiral

Australian Financial Review

Jenny Wiggins and **Simon Evans**

Mar 24, 2022 – 7.28pm

Civil contractors who say that they are at “breaking point” due to soaring materials and fuel prices have called on state and federal governments to follow the lead of Queensland and bear more of the costs of core building materials like steel and concrete.

Queensland, which has a $62 billion major-projects pipeline over the next five years and is preparing for the 2032 Brisbane Olympic Games, allows companies to try to push the rising costs of prefabricated steel, steel bar and mesh and ready-mix concrete back onto taxpayers if prices rise significantly after tenders are submitted or materials purchased.

Queensland will review contractors’ claims for escalating materials costs on projects like the Cross River Rail.

Because of “supernormal” price hikes, contractors are at “breaking point,” said the Civil Contractors Federation (CCF) national chief executive Chris Melham.

“It’s the worst it’s been in the modern era...the pressure valve needs to come off.”

For the first time, the CCF’s nine board members - who include representatives from each state and territory - have made a unanimous decision to advocate for the national adoption of price escalation clauses similar to those used by Queensland’s Department of Transport and Main Roads.

“It is the first time the industry has really come forward and asked for supply cost relief because of the significant escalation across literally all inputs of the business,” Mr Melham said.

In Queensland, companies working on state-funded projects can submit a document known as “Annexure E (Increase in Supply Costs)” if they provide evidence of additional costs and agree to a potential audit.

Queensland transport and main roads minister Mark Bailey said the state was committed to supporting a sustainable construction sector, particularly small and medium local businesses that may not be able to absorb extraordinary, short-term cost increases.

“In consultation with Queensland peak bodies, the ‘Annexure E’ mechanism was developed to provide supply cost relief to contractors for nominated affected materials in a more timely way than the existing ‘rise and fall’ contract provisions,” Mr Bailey said.

“This clause is for nominated materials only and contractors must provide the department of transport and main roads with evidence to support any claim.

“Anyone building a house or renovating at the moment knows construction costs are going up, and that’s the same for major infrastructure projects right across the country as we emerge from Covid-19.”

The CCF, which has backed calls for the federal government to temporarily cut fuel excise taxes in next week’s budget, wants price escalation clauses on new and existing contracts for construction projects that receive Commonwealth and state funding.

The push by contractors, which will put further pressure on stretched government budgets, comes as Australia's biggest brick making group, Brickworks, lifts prices across its bricks, roofing tiles and masonry range to claw back inflationary pressures in raw materials and rising transport costs.

Brickworks managing director Lindsay Partridge said the biggest price rises had been in roof tiles, where the installed price is now 20 per cent above last year. Prices for top-of-the-range roof tiles imported from Spain are up 60 per cent due to rising shipping costs.

Building materials prices were already rising before Russia invaded Ukraine in late February, intensifying shipping logjams and sparking big increases in petrol prices.

Quantity surveyor and cost consultant RLB has warned that prices of materials like concrete, steel, reinforcement, timber and PVC-based products, which rose in 2021, are likely to continue to go up in 2022.

"This has prompted some trades to specify supply rates as a condition of tender pricing, resulting in a price adjustment should supply rates increase," RLB said in its first quarter report on the Australian construction market.

In the 12 months to December, prices for timber, board and joinery jumped 18.4 per cent while the prices of metals products rose 13.2 per cent, according to the Australian Bureau of Statistics.

The London Metal Exchange Index, which tracks the price of six metals including aluminum, copper and zinc, hit a record high in early March. Prices of iron ore, which is used to make steel, have retreated from last year's record highs but have been rebounding.

The financial pressures are squeezing contractors' profits, exacerbating operating risks.

Last month prominent builder Probuild collapsed while mid-tier Queensland builder Condev went into administration this month.

Former Master Builders Australia CEO John Murray, who has reviewed security of payment laws for the Commonwealth, said that before 2000 (when inflation was higher than it is today) most construction contracts contained a "rise and fall clause" based on formulas developed to monitor fluctuations in the cost of labour and materials.

"As inflation waned fewer contracts were subject to rise and fall and the various industry formulas were no longer maintained," Mr Murray said.

"If construction costs will now continue to rise (and the better view is that they will), then industry will need to get together and agree on a suitable cost adjustment formula based on reasonable indices and capable of allowing for regional variations."

The Australian Constructors Association this week said it was considering asking the Australian Bureau of Statistics to come up with new indices to track the costs of more materials used to build infrastructure due to the complexity of tracking price hikes.

NSW Premier Dominic Perrottet last month acknowledged the cost of building new metros and motorways was increasing but said the state would keep building them.

Jenny Wiggins writes on business, specialising in infrastructure and transport. *Connect with Jenny on Twitter. Email Jenny at jwiggins@afr.com*

Simon Evans writes on business specialising in retail, manufacturing, beverages, mining and M&A. He is based in Adelaide. *Connect with Simon on Twitter. Email Simon at simon.evans@afr.com*