Construction Productivity Inquiry

Submission to the Queensland Productivity Commission

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In partnership with Building 4.0 CRC

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1. Introduction

This document is drawn from an active research project under the Building 4.0 Cooperative Research Council Funding Scheme Project #80 (B4.0CRC#80), *Why are insolvencies so high in the Construction Industry and what can be done about it?.* This research is being conducted by Queensland University of Technology (QUT) and by Dr Lyndall Bryant, Dr Amanda Bull, Dr Elizabeth Streten, Morgan O'Neill and Dr Fiona Cheung in collaboration with industry partners: the Building and Plumbing Commission (VIC), Master Builders Victoria and Holmesglen Institute.

The research project investigates the drivers of high insolvency rates in residential construction, focusing on financial risk, policy, and regulatory impacts. By triangulating insolvency data, sector systems, and education, it identifies key areas for reform to mitigate the economic fallout of residential construction company failures. This project's final report is due at the end of September 2025 and will provide evidence-based recommendations to help regulators, industry, and educators strengthen sector resilience and support housing affordability.

Early research findings indicate that enhancing productivity and resilience will require a unified shift in approach, one that engages all stakeholders across the supply chain. Whether operating in policy, practice, education, or regulation, each actor has a role to play in driving meaningful change. By challenging outdated systems, supporting innovation in training and governance, and fostering collaboration, the residential construction sector can better respond to economic pressures, reduce insolvency risk and increase productivity. While the challenges are complex, the potential for positive impact is substantial. This document provides an overview of our key findings, suggests recommendations, and responds to the following Interim Report inquiries:

- It provides feedback on the current deposit caps for domestic building contracts in Queensland (see p49 of the Interim Report);
- It provides consideration of the costs and benefits associated with trust account obligations in Queensland (see p50 of the Interim Report); and
- It provides a view and evidence on the underlying drivers, incidence and scale of issues in the training and apprenticeship system as they affect the construction industry (see p53 of the Interim Report).

This document also identifies areas where our recommendations are aligned with those of the Productivity Commission, reinforcing the shared priorities and policy directions necessary to improve productivity and resilience in the construction sector.

After this Introduction, the document structure proceeds as follows:

- Section 2 provides an overview of the residential construction sector in Australia;
- Section 3 sets out key interventions to address residential construction insolvency in Queensland;
- Section 4 provides responses to the interim report inquiries;
- Section 5 concludes.

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2. Insolvency in the Residential Construction System

This section provides a brief overview of insolvency in the Australian residential construction sector. It summarises concerns regarding increases in residential construction insolvencies and associated productivity concerns.

Recent IBISWorld forecasts suggest moderate growth in Australia's residential construction sector through 2029–30, with annual increases of 1.4% in house construction and 4.4% in multi-unit developments (Kelly, 2024). However, this growth outlook masks deep structural issues - rising input costs, supply chain disruptions, labour shortages, and high interest rates - that are driving up insolvency rates. Many firms are operating on thin margins and facing cost volatility and delays, all of which threaten productivity and the sector's ability to meet future housing demand (Master Builders Australia, 2023).

Throughout the research project, workshops were held with a variety of sector stakeholders. These stakeholders consistently identified three core drivers of insolvency, and associated productivity loss, in residential construction:

- Inefficient and high-risk financing structures;
- Limited financial and business capability among licensed builders; and
- Regulatory complexity and inconsistency.

The research highlights that these issues contribute to widespread project disruption, increased costs, and reduced innovation. Insolvency is not just a business failure - it is a systemic risk that affects housing availability, economic productivity, and financial stability. Addressing these challenges through targeted policy reforms in education, regulation, and financial safeguards is essential to unlocking the sector's full potential and to protecting all stakeholders, including vulnerable consumers.

Due to ethical and proprietary constraints, detailed findings will be released in our final report at the end of September 2025. The report will be available on the Building 4.0 CRC Project #80 webpage: https://building4pointzero.org/projects/80-why-are-insolvencies-so-high-in-the-construction-industry-phase-1-scoping-study/

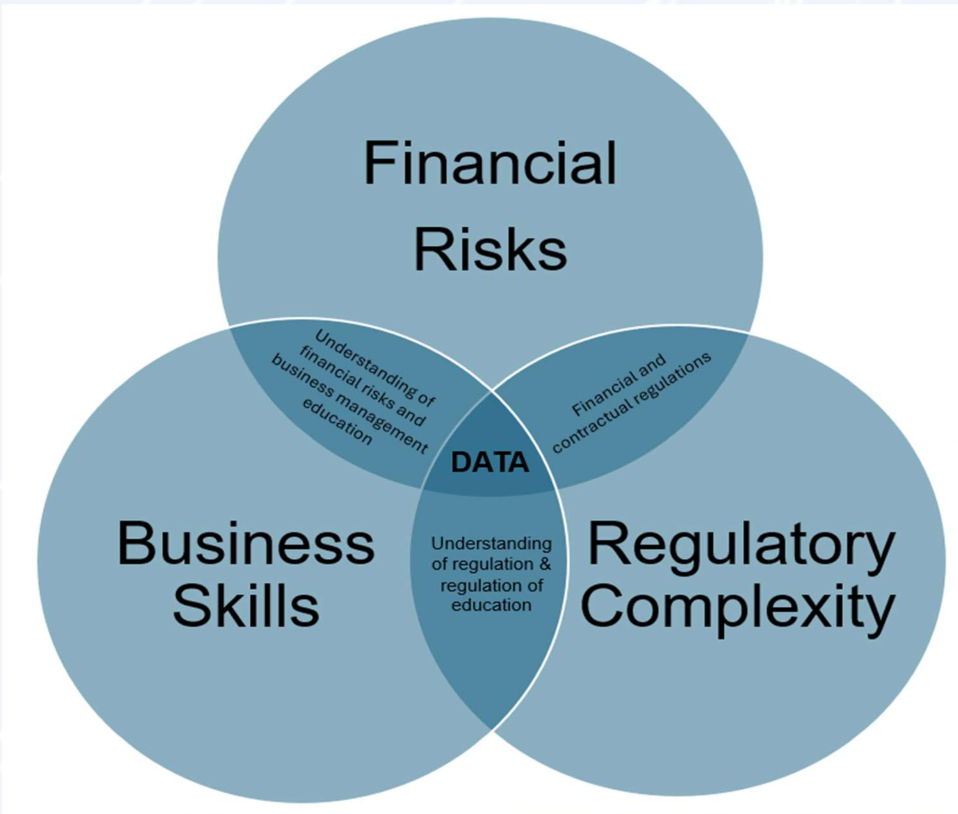
This section has been a brief contextualisation of residential construction insolvency in Australia. For further discussion of insolvency drivers, see our prior submission to this inquiry: Submission S-073 Queensland University of Technology.

3. Key Interventions to Address Insolvency

There are clear opportunities to improve productivity and reduce insolvency risk in Queensland's construction sector. This section provides a summary of preliminary recommendations from the research project It sets out the key interventions required to mitigate against residential construction insolvency in Queensland, and associated productivity concerns. These preliminary findings highlight the urgent need for targeted policy and program interventions to build business capability alongside technical skills. These insights inform a suite of recommendations aimed at strengthening financial structures, streamlining regulatory processes, and enhancing business support systems across the residential construction sector.

The following recommendations target key leverage points to enhance transparency, support early intervention, and promote long-term sector viability. More detailed information regarding final findings and recommendations will be provided in the research project's final report which will be finalised at the end of September 2025. The recommendations are based upon our research pertaining to the drivers of residential construction insolvency, which are summarised in the below diagram.

Figure 1: Venn Diagram of Insolvency Drivers



Source: Authors

3.1 Recommendations to address systemic flaws in funding structures

3.1.1 **Engage with financial institutions to reassess construction sector risk classification**, exploring how banks can meet prudential obligations without over-penalising builders or constraining project viability for consumers (by failing to accommodate the realities of construction cost overruns). Australia's Prudential Regulatory Authority requires banks to act prudently, rather than reasonably, when issuing home loans. This means that banks are reluctant to approve loans where construction costs are uncertain. However, due to the nature of the industry, supply volatility, cost overruns, and delays due to weather are not uncommon, and may result in the financial infeasibility to complete a project. There is a need to review banks' overarching regulatory frameworks to allow for more adaptive models of lending. This reassessment could form part of a broader national inquiry into construction finance and regulatory coherence, with the goal of fostering a more resilient, responsive, and equitable housing sector.

3.1.2 **Conduct a national inquiry into progress payment schedules in contracts and regulations**, assessing their alignment with contemporary construction practices. Such an inquiry should assess whether current practices strike an appropriate balance between banks' prudential obligations and operational flexibility and explore reforms into the progress payment schedule that better aligns with the reality of construction work. This recommendation would be subordinate to recommendation 3.1.1 and should be implemented together for maximum impact and benefit.

3.1.3 **Introduce adaptive financing models**, such as milestone-based payments tied to collaborative and verified progress payment schedules, aligned with the realities of the construction process, to reduce cashflow gaps and improve liquidity ***(This aligns with the Queensland Productivity Commission's Reform Direction 4 in its Interim Report***). This recommendation follows from recommendations 3.1.1 and 3.1.2 to propose updated progress payment schedule within contracts or the introduction of easier negotiation pathways towards fit-for-purpose progress schedules tied to the actual progress of construction for each build.

3.1.4 **Amend Security of Payment legislation in Queensland** to require the external administration of trust accounts, ensuring that funds allocated to subcontractors are safeguarded and used solely for their intended purpose ***(This aligns with the Queensland Productivity Commission's Preliminary Recommendation 14 in its Interim Report***). This recommendation would help ameliorate issues associated with incorrect administration of trust accounts (i.e. removing funds from one project account to pay for another), protect subcontractors, and help ameliorate issues associated with external administrators at liquidation.

3.2 Recommendations to Reduce Regulatory Complexity and Compliance Burden

3.2.1 Undertake a review of licensing and registration requirements between jurisdictions and review the National Registration Framework to reduce regulatory arbitrage under the Mutual Recognition Scheme and introduce mandatory Continuing Professional Education requirements tied to license renewal. This evaluation should also include a review of the approach taken in regard to assessment of eligibility across the jurisdictions. (***This aligns with the Queensland Productivity Commission's Preliminary Recommendation 18 in its Interim Report).*** The alignment of initial licensing and registration requirements, together with the aligning of the renewal of licensing requirements, across Australia would facilitate consistency and minimise 'jurisdiction shopping' with respect to builders taking advantage of any variation in licensing and registration requirements between jurisdictions which may have a lower threshold or less 'burdensome' assessment approaches than the jurisdiction which builders later obtain entry to pursuant to the Mutual Recognition Scheme.

3.2.2 Clarify insolvency regulation obligations, including thresholds for voluntary administration and director duties. The current bifurcated Australian insolvency regime has unnecessary complexities arising from decades of piecemeal reforms (Parliamentary Joint Committee on Corporations and Financial Services, 2023, pp. xxv–xxvi, 82; Streten, 2024, p. 47,48). In 2023, the Parliamentary Joint Committee on Corporations and Financial Services released a report on corporate insolvency acknowledging this complexity and recommending that the Australian government commission 'a comprehensive and independent review of Australia's insolvency law, encompassing both corporate and personal insolvency' (Parliamentary Joint Committee on Corporations and Financial Services, 2023, pp. xiii–xvii). We support a holistic review of the Australian insolvency regime and any corresponding improved clarity in its regulation, including clarity with respect to insolvency mechanisms and director duties. This recommendation is made in conjunction with the recommendations in 3.3 below regarding the strengthening of business and legal acumen.

3.2.3 Streamline compliance processes for Small Medium Enterprise's (SME) operating in the construction industry, including simplifying (and reducing costs and complexity associated with) reporting, insurance, and dispute resolution mechanisms (particularly disputes between head contractors and subcontractors). This could include introducing tiered compliance models based on business size and risk profile. However, whilst tiered regulation can offer benefits, consideration must be given to increasing the complexity of the regulatory environment and inadvertently discouraging growth to stay under a compliance threshold (Douglas & Pejoska, 2017).

3.2.4 Conduct periodic, co-designed reviews of relevant regulations, and identify and repeal or simplify requirements that add cost or delay but deliver minimal safety or consumer benefit (***This aligns with the Queensland Productivity Commission's Preliminary Recommendation 12 in its Interim Report).*** This may include the embedment of sunset provisions into new and existing building laws. Under the Statutory Instruments Act 1992 (Qld) a regulation automatically expires after 10 years unless action is taken to preserve it. However, the construction sector and surrounding regulation, culture, and dynamics moves too quickly for regulations to be justified after 10 years. Regulations that expire unless re-justified force policymakers to demonstrate ongoing value and benefit to the sector and to the wider stakeholder network.

3.2.5 **Create a well-regulated public database of qualified construction professionals**, including a **default register**, to improve transparency and accountability across the supply chain and to protect consumers. Existing databases such as iCirt have been criticised for being overly rigorous and penalising builders who have payment defaults unrelated to their building work, and for being largely unregulated (CRC #80 Workshop Findings). This database would require regulatory oversight to ensure accurate and effective reporting of residential construction-related defaults which could then appropriately inform consumers regarding known financial risks associated with builders. Such a database would need to include provisions to recognise stakeholder insolvency for inadvertently insolvent builders, i.e. those at the bottom of the hierarchical contracting chain, who are vulnerable to the cascading effects of insolvency from higher up in the chain.

3.2.6 **Rebalance deposit cap regulations** to reflect actual upfront costs and reduce liquidity gaps for builders. In the case of new building modes such as pre-fabrication, a more realistic deposit amount would be closer to 20%, whilst for standard home builds the amount should be increased to at least 10% (Building 4.0 CRC Workshop Findings). Further consideration should be given to whether insurance can be included as an addition to the deposit amount, rather than included within the deposit cap. (See Response to Construction Productivity Interim Report Inquiries for further discussion)

3.3 Recommendations to strengthen business and legal acumen, contractual literacy and resolution mechanisms

3.3.1 **Mandate formal business education as part of licensing requirements**, with emphasis on legal and financial obligations and risks, financial planning, contract negotiation, risk management, and **directorship duties** under the Corporations Act (recommendation 3.3.2). This recommendation is made subject to, and in connection with, recommendation 3.2.1 above. It is recommended that these requirements form part of nationally aligned requirements to obtain a license and as part of continuing education obligations with respect to renewal of licenses. If there is no national oversight to the inclusion of mandatory business education at licensing, then the net benefit of this reform would be undermined by the Mutual Recognition Scheme.

3.3.2 **Develop targeted education programs to address cultural factors** that discourage timely engagement with qualified professionals (such as lawyers, financial advisors, accountants etc.) and reinforce informal practices. These education programs should be fit-for-purpose and designed to engage culturally with builders. The authors suggest creating collaborative education groups with industry leaders such as Master Builders Australia, Bunnings, and Total Tools to create education delivered in a format that builders will engage in. Such education could be delivered in the form of short programs conducted in an appropriate setting, and by accredited trainers, and should target cultural factors such as the preference for cash/ no contract jobs, the stigma in asking for help, and other cultural dynamics as discussed in the Final Building 4.0 CRC Report.

3.3.3 **Establish or expand access to low-cost, independent dispute resolution services** tailored to construction contracts. Whilst regulatory bodies such as the QBCC handle disputes, they have no power to require someone to pay or refund monies, give orders about contracts, or force parties to comply with the agreement. Payment claims made under Security of Payment legislation or through small claims court are costly and further entrench financial difficulties for builders. Implementing accessible, affordable and fast dispute resolution mechanisms, through a construction Ombudsman or other adjudication panel would allow stakeholders to resolve disputes more efficiently and equitably.

3.3.4 **Mandate Continuing Professional Development and tie it to registration renewal**, ensuring mandatory, ongoing competency in business, legal and financial management, and regulatory compliance. Ensure that CPD units are prescribed and not selectable by builders based on preference, prioritising regulatory changes, managing business solvency, and understanding builders' financial obligations under regulations. These CPD courses should be provided by accredited industry bodies and training organisations, rather than by all RTOs to ensure that reliable and rigorous CPD training is being provided to builders. This recommendation should be implemented in parallel or in consideration with recommendations 3.2.1 and 3.3.5.

3.3.5 **Undertake a comprehensive review of Registered Training Organisations**, specifically RTOs that provide the initial Cert IV and Diploma qualifications mandated under licensing requirements, assessing the quality and consistency of the training provided. In particular, such a review should audit the business and finance models specific to the construction industry for relevance, rigour, and adaptability to frequent regulatory change. These units include:

- Select, prepare and administer a construction contract
- Identify and produce estimated costs for building and construction projects
- Produce labour and material schedules for ordering
- Apply legal requirements to building and construction projects
- Manage business risk
- Manage building and construction business finances
- Monitor costing systems on complex building and construction projects
- Prepare and evaluate tender documentation
- Select and manage building and construction contractors
- Administer the legal obligations of a building and construction contractor

3.4 Recommendations to Enhance Professional Advisor Capacity

3.4.1 To improve compliance with sector-specific financial and regulatory requirements, governments and industry bodies should **develop accredited Continuing**

Professional Development modules for professional advisors, such as lawyers, accountants, and financial advisors, who support residential builders. These modules should focus on the unique operational, contractual, cultural, and regulatory nuances of the construction industry. Implementation should involve collaboration with state regulators, industry associations, and professional bodies to co-design CPD content that is jurisdictionally specific, scenario-based, and embedded in existing accreditation pathways.

3.4.2 **Establish a publicly accessible register of "Construction Financial and Legal Advisors"** listing accountants and lawyers who have completed relevant construction industry CPD/training. A verified register would help builders identify advisors with demonstrated sector competence, reduce the risk of misinformed guidance, and promote accountability across the advisory ecosystem. This recommendation would need to implemented parallel to recommendation 3.4.1 to support credibility of the professionals listed on this register.

3.4.3 **Co-create sector specific toolkits (checklists, traffic light systems),** with industry associations and culturally embedded companies such as Master Builders, Bunnings, and/or TotalTools, and circulate them through professional and social networks. This approach leverages the trust and reach of culturally embedded institutions to bridge the gap between regulatory complexity and on-the-ground decision making. By embedding this guidance in familiar environments and formats, it supports early and culturally appropriate intervention, reduces educational fatigue, and fosters a culture of proactive compliance.

3.5 Recommendation: Enhancing Data Collection and Predictive Capability

Data limitations constrain the sector's ability to identify early warning signs, evaluate policy effectiveness, and design targeted interventions. These recommendations are designed to increase the availability and granularity of data to better inform research and reform avenues.

3.5.1 **Establish a well-regulated national insolvency data platform**, integrating data from the Australian Securities and Investments Commission, Australian Financial Security Authority, industry, and regulatory data to support predictive modelling and early intervention.

3.5.2 **Require consistent data collection and publication across all regulatory bodies** to improve transparency, comparability and early intervention in residential construction insolvencies. It is recommended that all regulatory bodies involved in construction oversight adopt consistent data collection and reporting standards including standardising the reporting formats of 'early warning sign' data such as:

- Turnover and financial performance;
- Licence suspension or cancellation;
- Definitions and reporting of insolvency events;
- Insurance eligibility, claims or cancellation;

- Dispute resolution outcomes.

These standards should be adopted by **state-level construction regulators** including Queensland Building and Construction Commission, Building and Plumbing Commission and their equivalents in other jurisdictions, and ideally extended to **statutory insurers, dispute resolution bodies, WorkSafe authorities**, and other relevant agencies. Importantly, report formats should include structured free-text fields to allow for contextual information that enhances the granularity, comparability and interpretability of statistical data. This will support more nuanced analysis, enable cross-jurisdictional comparisons and improve the effectiveness of early warning systems.

3.5.3 **Invest in technology integration across the construction system**, enabling real-time tracking of financial health, project progress, and risk exposure.

This section 3 is a summary of preliminary findings regarding key interventions required to mitigate against residential construction insolvency in Queensland, and to mitigate against associated productivity concerns. Full recommendations and supporting analysis will be included in the research project's final report, to be released in September 2025. This report will serve as a foundational resource to guide future reforms and policy efforts focused on lifting the overall capability, productivity and resilience of the sector.

4. Response to Construction Productivity Interim Report Inquiries

This section 4 responds to the following Queensland Productivity Commission's Interim Report inquiries:

- It provides feedback on the *current deposit caps for domestic building contracts in Queensland* (see p49 of the Interim Report);
- It provides consideration of the *costs and benefits associated with trust account obligations in Queensland* (see p50 of the Interim Report); and
- It provides a *view and evidence on the underlying drivers, incidence and scale of issues in the training and apprenticeship system as they affect the construction industry* (see p53 of the Interim Report).

4.1 Feedback on the current deposit caps for domestic building contracts in Queensland.

The current regulatory cap on deposits for domestic building contracts in Queensland, while designed to protect consumers, introduces significant financial and operational challenges for builders, particularly SMEs. These constraints are especially problematic in the pre-deposit phase, where builders are required to absorb early-stage costs (e.g. site assessments, drafting, engineering) without any financial commitment from the client.

Workshop participants also highlighted the insufficiency of existing deposit amounts, noting that after the preliminary costs and insurance premiums have been accounted for, there is very little working capital available to fund the next stages of the project. The caps on deposits in the regulation also do not take into account the operational realities of construction work including the long lead times on products like windows, subcontractors deposit expectations, and modern forms of construction like pre-fabrication which requires a significantly larger deposit (as most construction is completed off-site).

Builders are often prohibited from charging for preliminary work unless a full contract is signed. However, banks typically require a signed contract to approve finance, which is often needed to fund the deposit itself. This creates a "chicken-and-egg" scenario that exposes builders to liquidity gaps even before construction begins. For smaller operators with limited reserves, this can lead to reliance on trade credit or personal funds, with no recourse if the client withdraws due to financing issues. When juggling multiple projects with varied preliminary costs and progress schedules, builders may also borrow money from other projects in order to finance the current stage of a specific build.

These conditions contribute to a fragile operating environment where builders frequently operate with negative or marginal cash flow. In a sector already characterised by thin margins, this increases the risk of insolvency - particularly when compounded by volatile input costs, delayed payments, and limited access to affordable credit. This fragility undermines the sector's ability to respond at scale to national housing targets and reduces overall productivity.

Workshop participants in the research project also highlighted the link between cashflow pressure and build quality. When builders are forced to self-fund early works, they may cut corners, using cheaper materials, reducing supervision, or rushing to reach payment milestones. This has the potential to increase the risk of defects, which can delay inspections and further payments, creating a cycle of financial stress and quality compromise. These dynamics are especially acute for SMEs, who lack the buffers to absorb such shocks.

We recommend the Productivity Commission consider:

- Increasing the allowable deposit cap for domestic building contracts to better reflect the actual upfront costs incurred by builders.
- Introducing staged or conditional pre-contract payments for documented preliminary work, with escrow-style protections to safeguard consumers.

These reforms would improve builder liquidity, reduce insolvency risk, and support higher-quality project delivery, while maintaining consumer protections through transparency and accountability mechanisms.

4.2 Consideration of the costs and benefits associated with trust account obligations in Queensland

Queensland's Project Trust Account (PTA) regime is the most comprehensive trust account framework in Australia. However, its application is currently limited to projects over $1 million, excluding most residential construction contracts. While the framework aims to protect subcontractor payments and reduce insolvency risk, its practical impact remains limited and, in some cases, counterproductive.

Despite Queensland's leadership in trust account legislation, there is little evidence that the PTA regime has reduced insolvency rates. Declines in insolvency between FY19 and FY22 coincided with national COVID-19 support measures, not the introduction of trust accounts. Since the withdrawal of those supports, insolvency rates have risen sharply, suggesting macroeconomic factors were the primary driver of earlier improvements (Ernst & Young, 2025).

The framework also introduces financial strain for head contractors. Under QBCC's Minimum Financial Requirements (MFRs), PTA funds are excluded from allowable assets, limiting liquidity (Queensland Parliament, 2024). This has led to some builders pursuing a workaround where accounts are emptied and replenished only when payments are due, undermining the intent of the legislation.

While the PTA regime has improved financial record-keeping among some builders, it has proven ineffective during insolvency events. Its provisions for fund distribution are vague and sometimes conflict with federal law and banking procedures, leading to delays, disputes, and idle funds. High-profile collapses such as St Hilliers, PBS Building (Qld), and GCB Constructions (Qld) illustrate these shortcomings (Jessica Lamb et al., 2023; Michael Bleby, 2024; Queensland Building and Construction Commission, 2023).

We recommend the Productivity Commission consider:

- Clarifying and streamlining fund access rules under PTA regimes to balance liquidity needs with payment security, reducing incentives to bypass the system.
- Evaluating the cost-benefit of extending trust account obligations to smaller residential projects, with consideration for simplified or tiered models that reduce administrative burden while enhancing payment protection.
- Amending the *Building Industry Fairness (Security of Payment) Act 2017* (Qld) to prohibit any withdrawals from trust accounts once funds are deposited, except for authorised payments directly related to the contract for the relevant project.
- Introducing enforceable penalties for unauthorised withdrawals, including fines and potential licence suspension, to ensure compliance and deter misuse.
- Establishing a framework for accredited third-party administrators to manage trust accounts on behalf of builders and head contractors. Builders could opt into third-party administration or be required to do so based on project size, risk profile, or past compliance history.

These reforms may assist in ensuring that trust account obligations support, rather than hinder, sector productivity, financial stability, and subcontractor protection.

4.3 A view and evidence on the underlying drivers, incidence and scale of issues in the training and apprenticeship system as they affect the construction industry.

The delivery of training and assessment within Australia's vocational education system plays a critical role in shaping the skills and capabilities of builders entering the residential construction sector. However, the research project, and stakeholder workshops throughout the research project, have identified several systemic weaknesses, particularly in the areas of Recognition of Prior Learning (RPL), assessment standards, and competency verification, that may inadvertently contribute to business failure and reduced productivity.

RPL is intended to validate informal experience and support workforce mobility. While this mechanism has merit, its application without rigorous oversight can result in builders bypassing essential education in financial literacy, legal obligations, and strategic business planning. This creates a scenario where individuals are credentialed without acquiring the foundational knowledge required to operate a financially resilient business.

Compounding this issue is the variability in assessment practices across Registered Training Organisations (RTOs). Commercial pressures and inconsistent standards have led to cases where competency is awarded without demonstrated understanding, particularly in abstract but critical domains such as insolvency risk management and legal compliance. Builders entering the market with qualifications that suggest readiness may, in reality, lack the skills to manage complex financial systems, respond to legal threats or navigate the irregular nature of progress payments, increasing their exposure to insolvency.

Further, the lack of robust oversight in competency verification presents a significant risk. Trainers and assessors may not possess relevant industry experience in financial management or corporate governance yet are responsible for certifying others in these areas. This accountability gap undermines qualification integrity and business viability. The interplay between RPL and weak assessment practices creates a feedback loop of vulnerability. Builders may enter the industry with strong technical skills but without the strategic foresight, financial competency or legal literacy needed to run a viable business. This lack of preparedness can lead to mismanagement of cashflow, underestimation of project costs, and failure to respond appropriately to legal challenges- each of which is a known trigger for insolvency ((Australian Securities and Investments Commission, 2024, 2025, p. 1; *Newstart Homes Australia Pty Ltd v Kodiak Concrete Pty Ltd [2024] QSC 129*, n.d.; *Turnkey Innovative Engineering Pty Ltd v Witron Australia Pty Ltd [2023] NSWSC 981*, n.d.)).

These concerns are substantiated by recent regulatory action taken by the Australian Skills Quality Authority (ASQA), which cancelled over 21,000 qualifications and statements of attainment, including for construction programs, in late 2024 and early 2025 due to systemic failures in training delivery and assessment integrity (Australian Skills Quality Authority, 2025). Media reports and public inquiries have further exposed the prevalence of non-genuine RTOs issuing fraudulent qualifications, raising serious concerns about workforce capability and sector resilience (Adele Ferguson, 2025; Independent Broad-based Anti-corruption Commission, 2023). While the Commission has recommended expanding avenues for RPL to improve workforce flexibility, we caution that without strengthened oversight, this may have the opposite effect - credentialing individuals who are not adequately equipped for the demands of the industry. **This can lead to poor business decisions, increased defect rates, and ultimately, insolvency, thus undermining productivity across the sector.**

We recommend the Productivity Commission consider the following reforms to strengthen the training and apprenticeship system:

- Undertaking a comprehensive review of RTOs, assessing the quality and consistency of training.
- Ensuring that any expansion of RPL pathways is accompanied by rigorous validation processes, particularly in domains linked to business viability and understanding early flags to insolvency risk.

These reforms will help ensure that vocational education supports, rather than undermines, construction sector productivity by equipping builders with the full spectrum of skills required to operate resilient, compliant, and financially sound businesses.

This section 4 has provided responses and recommendations with respect to the following three Queensland Productivity Commission's Interim Report inquiries:

- The current deposit caps for domestic building contracts in Queensland;
- The costs and benefits associated with trust account obligations in Queensland;
- The underlying drivers, incidence and scale of issues in the training and apprenticeship system as they affect the construction industry.

5. Conclusion

In conclusion, insolvency in the residential construction sector is not merely a business failure - it is a systemic issue with far-reaching consequences for productivity, housing delivery, and economic stability. When builders collapse, the ripple effects disrupt supply chains, delay projects, increase defect risks, and erode workforce capacity. These impacts extend beyond the construction industry, dragging on national productivity and undermining efforts to meet housing targets.

Our research and stakeholder consultations undertaken throughout the research project reveal that insolvency is often the outcome of interlinked structural vulnerabilities: inefficient financing models, regulatory complexity, limited business capability, and weak payment protections. Current frameworks, such as deposit caps and trust account obligations, while well-intentioned, often exacerbate financial strain rather than mitigate against it.

To address these challenges, we propose a suite of targeted reforms designed to reduce insolvency risk and unlock productivity gains. These include:

- Rebalancing deposit cap regulations to reflect actual upfront costs and reduce liquidity gaps.
- Strengthening trust account legislation, including prohibiting premature withdrawals and introducing penalties for misuse.
- Establishing third-party trust account administrators to improve compliance and reduce administrative burden.
- Improving financial literacy and business capability through mandatory education and CPD requirements.
- Streamlining regulatory processes to reduce compliance fatigue and support early intervention.
- Enhancing data collection and predictive tools to enable proactive risk management and policy evaluation.

Together, these reforms aim to stabilise the operating environment for builders, protect subcontractors and vulnerable consumers, and improve the sector's ability to deliver high-quality housing efficiently. By reducing insolvency risk, we can remove a major impediment to construction productivity and support a more resilient, innovative, and scalable industry—one capable of contributing meaningfully to Australia's broader economic and social goals.

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