Comment – Mr Peter Woods

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Peter Woods brings 50 years of lived experience across the highs and lows of Australia's domestic building industry, giving him a unique perspective on both its decline and its potential. Having seen firsthand how outdated contracts and financial models have driven insolvencies and stifled productivity, he is now a passionate advocate for the paradigm shift the sector so urgently needs. As the founder and innovator behind proven, market-ready solutions—developed with strong Federal and State Government support—Peter is committed to openly sharing these reforms to empower builders, developers, financiers, and communities, ensuring the industry can move from crisis to sustainable growth.

Queensland Productivity Commission – Submission Response

On Financial Regulation, Security of Payment and Productivity

Peter Woods – Founder C2CPRO - Modpacs

Identifying the Root Cause

When considering solutions to the productivity decline in Queensland's construction industry, we must first address the **root cause**. While Modern Methods of Construction (MMC) can improve efficiency and speed, productivity cannot be restored without fixing the **broken financial model** underpinning the domestic building sector.

Evidence of the Problem

- The **Collins Report** and the **2015 Senate Inquiry into Construction Insolvency** both found that builder insolvencies are driven by the outdated practice of requiring builders to control all project funds.
- **Project Trust Accounts (PTAs)** were introduced to improve security of payment, but they have failed to resolve the issue. PTAs still place funds under the builder's control and expose all parties to non-payment risk if the principal fails to make progress payments.
- A **Findex Accountants review** found that:
  - Small builders are unlikely to undertake projects that trigger PTA requirements due to the added administrative burden.
  - This discourages many SMEs from participating in housing delivery — at a time when increasing housing stock is critical.
  - Domestic works instead require a **Modern Construction Management–type contract**, retaining the safeguards of standard contracts but with a transparent, secure payment pathway.
- **David Chandler OAM, former NSW Building Commissioner**, has also confirmed that funds owed to subcontractors should never flow through a builder's account. PTAs are not a solution, nor are "cost-plus" contracts, which shift risk without resolving insolvency pressures.

FACT: The Financial Model is Broken

Builders are forced to operate under a **"pay before being paid" model**, creating systemic and unsustainable constraints:

- **QBCC Minimum Financial Reporting Requirements** effectively tie up to **75% of a builder's assets**, locking them away as a theoretical insolvency buffer. These are assets that, in any other industry, would be available to support cash-flow or short-term financing. Instead, this requirement **increases insolvency risk** by denying builders access to their own working capital.
- **Bank finance is tightening**, with overdrafts and credit facilities harder to secure, leaving builders with fewer options to manage cash flow.
- **Accounts are harder to maintain.** Builders are increasingly forced to pay **deposits and upfront costs to suppliers**, before receiving funds from the client.
- Every dollar must be cycled through the builder's account, creating an **administrative burden** through repeated BAS and financial reporting, with no productivity value but significant overhead.
- The result is that **SME builders are constrained from taking on more work**. They are not limited by construction capability, but by an unsustainable financial model that requires them to act as project financiers rather than builders.

FACT: The Financial Model is the Problem

Builders are currently expected to operate under a **"pay before being paid" model**, which creates systemic constraints:

- **QBCC asset requirements** under Minimum Financial Reporting Requirement amount to a builders effectively handing over 75% of assets that could be used to grow a builders business, simply to provide some level of liquidated funding to meet payment obligations under an insolvency event. This requirement actually **increases the likelihood of insolvency** as these are assets that any other industry could call on to provide short-term funding in a cash-flow or other short fall.
- **Accounts are increasingly difficult to obtain**, with banks tightening credit and overdraft conditions for builders, compounding the financing challenge.
- Builders are pushed toward **deposits and payment on delivery** with suppliers, meaning that builders must pay out of pocket before receiving client funds.
- This creates an **administrative burden** through repeated BAS and financial reporting cycles, as every dollar must be cycled through a builder's account before flowing to trades and suppliers, adding no productivity value but significantly increasing overhead.
- The outcome is that **SME builders are constrained from taking on more projects** — not because they lack skills or capacity to build, but because they cannot cash-flow the jobs under current contracting rules.

The Simple Solution: Enhancing Existing Domestic Contracts with QBCC Regulation (s 11O)

The removal of the builder's control of project funds has already been **proven to work**. The solution is not to reinvent contracts, but to **enhance existing provisions** in domestic contracts, combined with the flexibility already allowed under the QBCC (Minimum Financial Requirements) Regulation (s 11O).

Current Position

- **Security Account provisions** already exist in standard QBCC, HIA, and QMBA contracts through the *Joint Account Clause*.

4	**SECURITY ACCOUNT MONEY**
4.1	***Applicability of Clause 4*** This Clause **4** only applies if Item 14 of the **Schedule** requires the **Owner** to deposit **Security Account Money** into the **Security Account**.
4.2	***Owner to deposit money into the Security Account*** Unless the parties otherwise agree: a) the **Owner** is to deposit the **Security Account Money** into the **Security Account** before the **Date for Commencement**; b) withdrawals from the **Security Account** must be used to make progress payments to the **Contractor** in accordance with Clause **25** before loan monies, the subject of the loan approval under Clause **3** (if applicable), are used to pay the **Contractor**; and c) withdrawals from the **Security Account** must require the signatures of both the **Contractor** and the **Owner**.

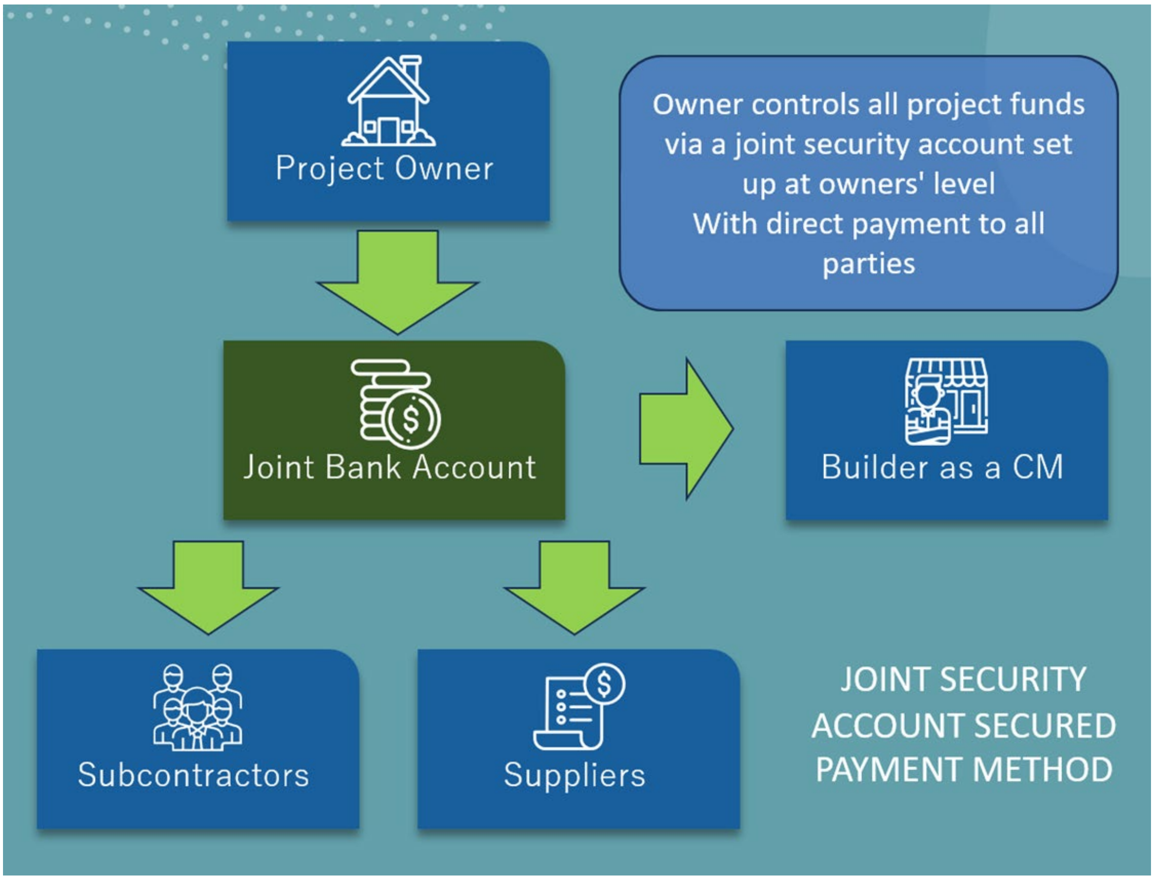
- In their current form, these clauses provide some security of payment between the Owner and the Builder, but they do not address the broader risks:
  - The Builder remains constrained by MFR requirements and the "paid before being paid" model.
  - Third-party trades and suppliers are still exposed to non-payment risk.

The Enhancement

Building on existing clauses, the model can be **enlarged** to ensure security of payment for all stakeholders by:

- Removing the Builder from direct control of funds owed to third parties.
- Granting the Owner the power to make payments directly to trades and suppliers under **full transparency** of:
  - *Who* the parties are,
  - *What* amounts they are owed, and
  - *When* payments fall due.

This transforms the account structure into a **Joint Security Account (JSA)**:



- Established with the Owner being the sole beneficiary and the CM being a non-beneficial second signature under a "two to sign – online Business Bank Account, proven to be a simple account setup at any Bank.
- Funds held securely for the sole purpose of the project.
- Payments released only when contract milestones are achieved and verified.
- Trades and suppliers are paid directly and in full — funds never pass through the Builder's general account.
- In the case of retentions these are held within the JSA ensuring the funds are secured solely for rectifications, and secured disbursement to the party the retention applies.

Benefits of the JSA Model

- Removes the Builder from acting as a de facto project financier, while maintaining accountability and transparency.
- Provides a **low-cost, low-compliance solution** compared with Project Trust Accounts.
- Eliminates duplication of BAS and reporting obligations tied to unnecessary fund handling.

- Guarantees “money in / money out” certainty for subcontractors and suppliers, preventing insolvency contagion.

Application of QBCC (Minimum Financial Requirements) Regulation (s 11O)

We recommend that contracts which adopt this model be formally recognised as a distinct category, for clarity and compliance:

- **“Domestic Construction Management Contract”**:
  - Structured as a standard domestic building contract, including Builder warranties, provision of Fixed Price – Provisional Sums – Prime Cost Allowances, Home Warranty Insurance, but with payments to trades and suppliers made directly from the Security Account (jointly authorised by the Owner and the Builder/Construction Manager).
  - Maximum revenue assessed under **Part 3B – Maximum Revenue of the 2018 Regulation**, which applies to construction managers, project managers, and certain licence classes.
  - Only the revenue payable directly to the licensee (the Construction Manager) is counted, not the entire value of the wider project.
- To address QBCC concerns around traditional CM contracts:
  - **All provisions of Standard Contracts remain**, except the standard “Security Account” provisions are enlarged to provide security of payment to third parties and for the Owner ensuring the funds remain on the project.
  - **Home Warranty Insurance should apply** as the CM is providing exactly yhe same price guarantee and Provisional Sum coverages as per Standard Contracts.
  - The **CM remains the sole party responsible** for engaging trades and supervising works.
  - Each trade contract includes a **warning statement** clarifying that payments will be made directly by the Owner, jointly with the Builder/CM, from the Security Account, and the **CM is the sole person** for the undertaking the supervision of the Project.
  - This ensures compliance while avoiding the risks of pure “Owner-builder” contracting.

In Essence

It is nothing more radical than a **Standard Domestic Contract**, but with one critical adjustment:

- Payment to third parties comes **directly from the Joint Security Account**, with the Builder/CM's authorisation.

This mirrors existing practice where Owners supply pre-paid goods into a contract — except here it is systematised, transparent, and secure.

The Outcome

Adopting the Joint Security Account solution delivers a **transformational shift in productivity and financial resilience**:

- **Removal of up to 75% of asset and cash requirements** currently imposed under the QBCC Minimum Financial Requirements (Financial Reporting Policy, Clause 10I), freeing builder resources for growth instead of compliance.
- **Secured cash flow for all participants**, with transparent visibility for project owners of *who is to be paid, how much, and when*.
- **Novation of contract provisions** ensures that if one party fails to complete, the project can continue without collapse — keeping projects alive and avoiding a claim on the Home Warranty Insurance.
- **Modern banking transactions** make payments seamless, direct, and efficient, without funds being held up in a builder's account.
- **Builders' assets are freed up for growth**, enabling them to take on more projects and employ more apprentices.
- **Higher profit margins and reduced risk** for builders and trades alike, as the cost of sub-funding projects disappears.
- **Project owners put their funds to work more effectively**, buying directly from suppliers at better rates, without builder account loading.
- **Builders transition into a true supervisory and project engineering role** — focusing on oversight, quality assurance, and delivery — rather than acting as financiers.

Pathway Forward

To restore productivity and viability, Queensland must **move beyond regulatory tinkering** and adopt modern contracting methods that:

- **Mandate or encourage use of Joint Security Accounts**, leveraging the contract provisions already in place.
- **Remove builders from controlling project funds**, ensuring subcontractors and suppliers are paid directly, and Owners have the security of transparency that their funds stay on Project.
- **Streamline financial obligations** by reducing unnecessary reporting burdens tied to money handling that builders should not be responsible for.
- **Unlock SME capacity** by enabling them to take on more projects without being forced to act as financiers of the industry.
- **Support MMC adoption** by aligning financial flows with modern delivery models that prioritise speed, security, and transparency.

Conclusion

Unless this fundamental financial model is addressed, productivity reforms will remain ineffective. The industry will continue to lose capable SMEs to insolvency or stagnation. **Queensland already has the legal framework for a Joint Security Account solution. The Commission should now recommend its adoption as the foundation of a new, fair, and productive financial model for the construction industry.**

Peter Woods

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