

# Construction Pulse Survey 2022: managing projects through uncertainty as skills availability declines and costs escalate

By Sefton Warner and Anna Scannell

*A new approach to flexibility and collaboration between developers and contractors is required to help the construction industry manage the impact of material and labour shortages and escalating building costs.*

The Maddocks Construction Pulse Survey asked a group of its construction clients during July and August about how they are managing project deadlines and budgets amidst continual labour shortages, rising costs, uncertain world events, and building material delays due to global supply chain disruptions.

Around half of the respondents said they were considering alternative procurement options, such as early contractor involvement, construction management or other forms of relationship contracting.

Sefton Warner, Maddocks Construction & Projects Partner said: *There has been an immediate impact on construction projects already in delivery, with a spike in contractual claims for time and cost relief being made across all projects.*

*For the pipeline of future projects, we've seen that the better prepared and more flexible a principal is, the better the outcome they are achieving. Early contractor involvement in the design development and collaboration in the contracting model is back in fashion.*

Anna Scannell, Maddocks Construction & Projects Partner added: *Financial pressures on contractors are causing some to walk away from projects mid-*

*stream or, worse, enter into insolvency.*

*Although most standard-form contracts do not entitle contractors to relief in these circumstances, a collaborative approach in which the principal shares in the financial pain will typically pay dividends for both parties and the project in the longer run.*

The main findings of the survey revealed:

- 'The 'hyper-escalation' of building material costs is the greatest cause of concern for both principals and contractors with one third of them adding that labour shortages and supply shortfalls were just as troubling.
- Almost 100 per cent (97 per cent) of respondents said they are concerned that ongoing challenges will cause the number of head contractor and sub-contractor insolvencies to rise, further impacting industry capacity.
- Project delays of between three and five months on active projects resulting from cost escalation and supply chain issues.
- One third (33%) of survey respondents expressed a low level of confidence or no confidence in budgeting for current projects.
- While many said that material costs would stabilise, 90 per cent said they had no choice but to continue with projects as planned.

Many respondents said the knock-on effects of the construction sector's challenges saw some contractors taking on too much work and compounding the scarcity of labour.

The challenging operating environment was prompting some developers and contractors to look at more flexible and collaborative approaches to project delivery, including:

*Early engagement:* Engaging a building contractor early in the design development stage to provide buildability and design management services. This is usually achieved with a short form Early Contractor Involvement or Agreement.

*Long lead items:* Principals placing orders directly themselves for long lead items, regardless of whether by building contract award they will be principal-supplied items or novated to the building contractor.

*Alternative contract structures:* Considering alternative forms of procurement for the delivery phase, such as:

- *construction management* where a contractor



- co-ordinates the work of trade contractors selected and engaged by the Principal
- *managing contractor* where subcontractors are selected by the Principal, but engaged by the Contractor on an open book basis
- *form alliances* where the parties share collaboratively in the upside and downside of various project risks.

Just over 50 per cent of survey participants said they were now considering additional contingency amounts and extra duration being added to project budgets and building programs to mitigate supply chain risks.

One popular option to overcome supply chain disruption included moving to early contractor involvement and inserting rise and fall clauses for specific components of project tenders.

There were also calls for lump sum contracts to be issued with more developed design documents to be secured from the market to prompt more accurate pricing.

Survey respondents also highlighted the need for government and financial institutions to show a greater understanding of the sector challenges such as the requirement for contractors to carry the risk of costs increases.

A link to the Construction Pulse Survey 2022 [can be found here](#).



## ABOUT THE AUTHORS



**Sefton Warner | Partner**

Sefton has a well-established track record advising a range of construction industry participants including project proponents from both the private and public sectors as well as contractors and financiers across a range of industry sectors in respect of major projects both in Australia and overseas. Click [here](#) for his full biography.



**Anna Scannell | Partner**

Anna specialises in the resolution of disputes on construction and infrastructure projects acting, primarily, for a mix of Government (both State and local) and national contractor clients. The types of projects on which Anna has advised include transport infrastructure (rail, road and airport), civil infrastructure (water and gas pipelines), social infrastructure (hospitals, schools and universities) and commercial and residential developments. Click [here](#) for her full biography.