IDEAS | PEOPLE | TRUST

BDO Construction Survey 2023

The sample size of the construction worker survey was 205. Fieldwork was undertaken between 7th - 14th September 2023 by YouGov. The survey was carried out online. The figures have been weighted and are representative of all Australian construction workers in businesses with 20+ employees.

Executive summary

The BDO Construction Survey 2023 provides insights into a range of financial and non-financial metrics, including but not limited to, financial performance, liquidity, environmental, social, and corporate governance (ESG) reporting, diversity, and the supply chain.

The survey indicates positive trends in revenue growth, yet gross profit margins remain under pressure. The escalation of costs continues to be a significant business risk within the construction sector and is exacerbated by subcontractor and supply chain challenges, emphasising the need for robust risk management.

Nonetheless, the impact on FY24 profit margins is expected to decline, owing to heightened market awareness of these challenges and better preparedness from construction companies who are incorporating expected cost increases into their budget projections.

Current levels of ESG adoption are encouraging but reporting and GHG emissions measurement require further attention. Only 36 per cent of our participants felt that they have accurate reporting on their waste management and recycling initiatives.

Diversity, equity, and inclusion efforts will also require further attention, particularly as the talent crisis intensifies in the industry. Construction companies must become more attractive employers to Australians, or they will risk not having a reliable pipeline of young talent.

We also surveyed over 200 construction workers for insight into the mental health and broader well-being of the workforce in construction. The participants overwhelmingly responded in favour of a five-day working week and noted that a common area of concern was a lack of job security.

To thrive in an evolving market, the construction sector must continue to focus on sustainable practices, inclusive policies, and employee well-being.

Participant overview

A total of 14 construction organisations completed the survey in 2023 with **72 per cent** of participants reporting FY23 revenues of < $750M.

Most of the construction companies surveyed have operations in commercial, industrial, and residential subsectors, with an increasing number of companies also having operations in government and build-to-rent (BTR) projects, compared to prior BDO surveys. The survey participants in 2023 have an average of 324 full-time employees, however the range of organisations surveyed varied from 15 employees to 742 employees.

Figure 1. Participant breakdown by revenue (FY23)

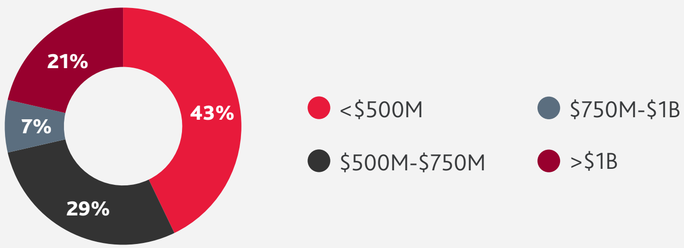
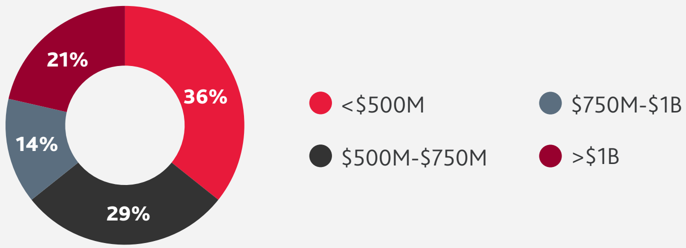
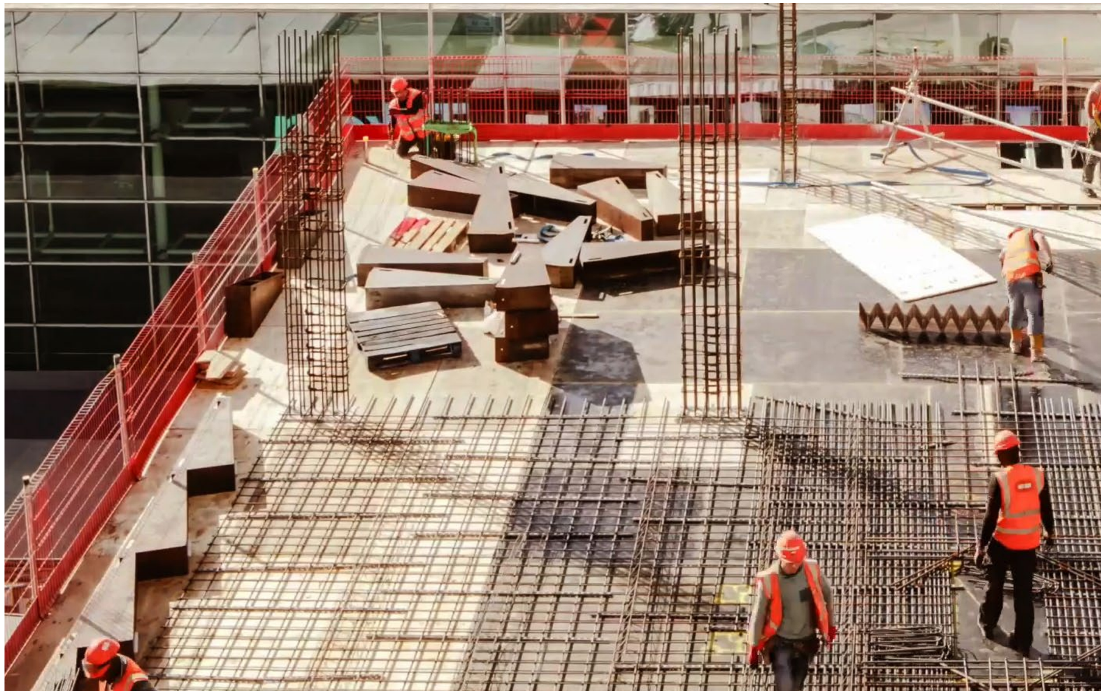


Figure 2. Forecast revenue for FY24 and FY25



We note that not all participant responses have been used in every question, due to cases of outliers and/or incomplete data for analysis.

Of the participants, **43 per cent** reported revenues of less than $500 million in FY23 (Figure 1). Forecasts for FY24 and FY25 suggest that revenues are expected to grow, and a number of participants anticipate they will move up in the revenue brackets reported (Figure 2).



Revenue and profit trends

The construction sector is emerging from a challenging period defined by the residual effects of COVID-19, increases in the costs of construction and inclement weather causing significant programming delays.

There was a positive trend in revenue reported for FY23:

- **57 per cent** of the respondents reported an increase in revenue of more than 10 per cent compared to the previous financial year (Figure 3)
- **21 per cent** of respondents saw the opposite trend in FY23, with a decrease in revenue compared to the previous financial year (Figure 3).

A greater number of projects (and of higher value) are currently underway as the industry makes use of improved weather conditions to begin clearing the backlog of projects. This is also reflected in the reported backlog revenue:

- The average organisation reported **59 per cent** of their total forecasted revenue for FY24 as being committed revenue.

However, economic pressures continue to affect gross profit margins despite continued revenue growth:

- **57 per cent** of the respondents also reported a significant decline of more than 10% in net profit before income tax in FY23
- The average net profit before income tax (as a percentage of revenue) was **1.77 per cent**.

Figure 3. Actual movement in revenue for FY23

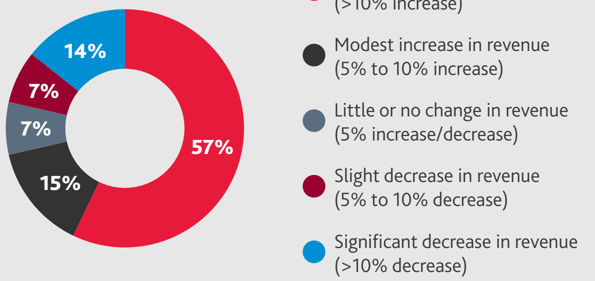
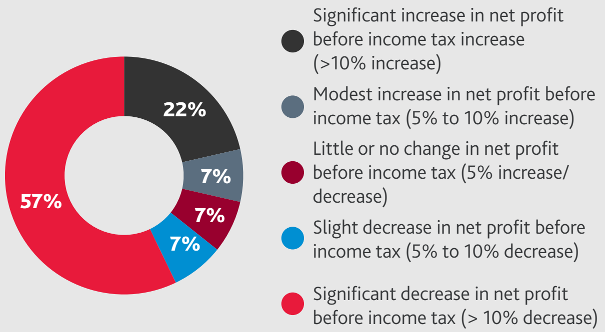


Figure 4. Actual movement in net profit before income tax for FY23



BDO insights

FY23's revenue growth suggests early signs of confidence is being reinstated in the industry following COVID-19. However, construction companies continue to face pressures on their gross profit margins.

In our experience, best practices in managing profit and margins come down to detailed project-level financial modelling and cost tracking. This ensures the overarching project margin can be managed as well as the head office costs.

This is particularly helpful when dealing with external stakeholders (i.e. banks, shareholders, developers) in providing transparency in financial reporting and demonstrating strong robust forecasts which are monitored by management and updated regularly.

The unforeseen cost escalations experienced during FY23, has placed increase pressure on organisations to adapt the management and monitoring of costs on historically accurately budgeted projects.

Key trends in reducing cost escalation exposure identified by construction companies include:

- Bringing supplies and services in house, reducing subcontractor exposure
- Purchasing and storing materials upfront on projects
- Supply chain costs being passed onto customers through contractual clauses

The impact of increasing costs remains a key business risk for the construction sector, however the impact on FY24 margins is expected to reduce given the greater market awareness of the issues faced, with increasing costs being built into budgeted forecasts and models on future projects.

Liquidity and financing trends

In Australia, construction companies have historically struggled with the potential adverse effects of one bad project on their entity's solvency and viability. However, the frequency of construction insolvencies lately has resulted in higher levels of scrutiny on construction companies by the media and public.

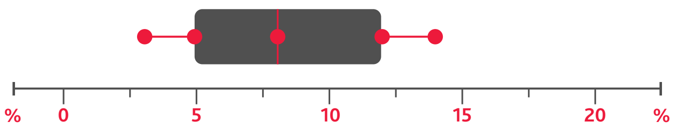
The working capital ratio is a widely used measure of the solvency of a company. The survey participants have:

- A median **8.1 per cent** working capital as a percentage of revenue (Figure 5)
- A median cash as a percentage of total revenue was **11.2 per cent**
- A median surety bonds/bank guarantees to revenue was **11.5 per cent**.

Construction companies have tightened up their balance sheet with an increased focus on cash retention and debt collection. Positive results also showed that:

- **36 per cent** of participants reported that their organisation's cash position is expected to increase over the next 12 months
- **71 per cent** of the survey participants also noted that clients have been paying "about the same" compared to 12 months ago
- Only **29 per cent** have reported that clients are taking longer to pay debts as they are due.

Figure 5. Working capital ratio FY23



BDO insights

Whilst the above data presents a positive trend in the construction industry, we have still seen the on-going impact of supply chain disruptions, rising interest rates and rising construction costs over the past few years. This has raised issues for the construction industry when accessing debt funding, which has been further compounded by the additional pressures placed on construction companies to hold significant retention and working capital balances, due to both upstream and downstream financial constraints.

These issues are primarily driven by higher levels of scrutiny in the cost escalations under contracts. Traditional lenders are also more stringent about construction companies proving their financial viability prior to the release of funding. This has led to an increase in debt funding with private credit providers who may have more risk appetite for construction lending, in the current climate.

> *"The bonding on projects will determine the work done, we are expecting to be restricted on the amount of work capable to be undertaken due to, reduced number of bond providers, and volatility in the building industry as a whole."*
>
> Anonymous participant

Subcontractor and supply chains

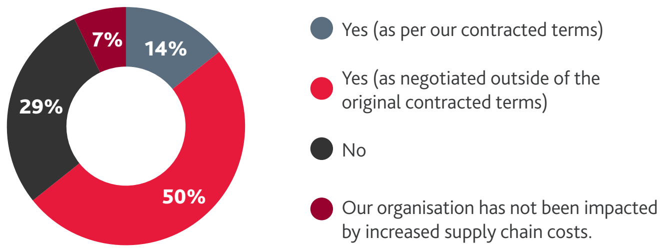
The construction industry continues to struggle with subcontractor or supplier insolvency and the issue has only been exacerbated by inflation and on-going supply chain issues. The participants employ a median of 1,000 subcontractors, with the full range between 100 to 3,500 subcontractors per organisation.

- **86 per cent** of survey participants reported a financial loss due to subcontractor or supplier insolvency in the 12-months preceding the 2023 survey
- **75 per cent** of those who reported a loss, reported a financial loss greater than $1,000,000.

One of the most significant issues for the construction industry has been fixed-price contracts:

- **64 per cent** of participants noted that they had been able to pass on increased supply chain costs to the developer/client, with **78 per cent** of these being negotiated outside of the original contracted terms (Figure 6)
- **77 per cent** of surveyed respondents have noted that there has been some or much greater demand from subcontractors seeking shorter payment terms compared to the previous 12 months
- **71 per cent** of surveyed respondents also reported offering shorter payment terms in exchange for discounts applied to invoices from suppliers and subcontractors as part of the regular accounts payable process (as opposed to at the time when the original supply agreement was entered into).

Figure 6. Has your organisation been able to pass on any increased supply chain costs to developer/customer?



BDO insights

Subcontractor and supply chain issues remain an on-going theme in 2023 and are causing a significant negative impact to profit. Factors such as intensified competition, labour shortages and global disruptions to supply chain are also negatively affecting profit.

It is critical that the construction industry builds strong connections and relationships with subcontractors in order to succeed. However, it is increasingly difficult for lead contractors that support subcontractors to ensure that larger financial impacts and margin pressures are minimised on each project.

Having robust controls and processes around supply chain risk is vital. This may include regular touch points with key subcontractors, credit checks, and regular subcontractor performance reviews throughout the year to assist in identifying potential pain-points on a project.

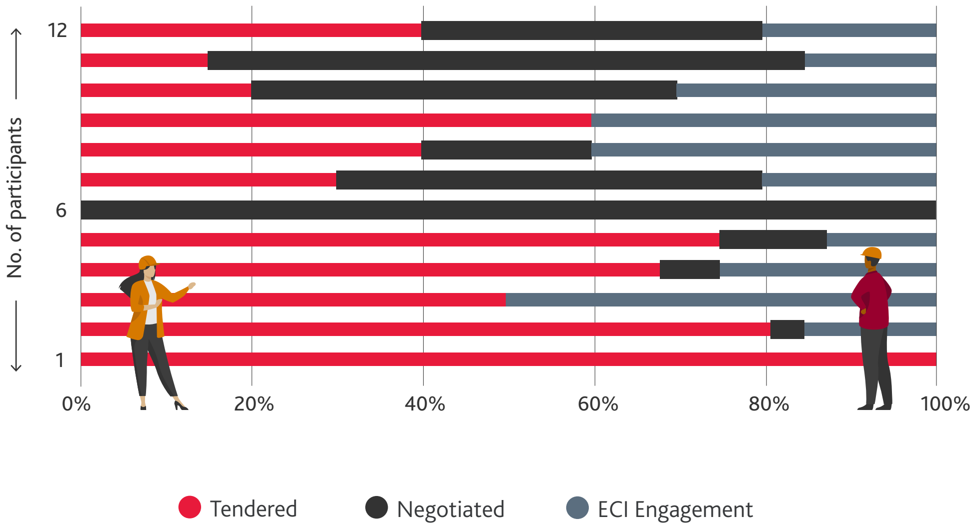
Estimating

Producing successful estimates and tenders is critical to a construction company's profitability. Estimating has been challenging with the on-going uncertainty over construction costs and the fine balance in taking on the internal costs involved with every tender.

In the 2023 financial year:

- Tendered contracts averaged **48 per cent** of total revenue
- Negotiated contracts averaged **39 per cent** of revenue
- ECI engagements averaged **24 per cent** of revenue.

Figure 7. Percentage of FY23 revenue by contract type



All participants reported that price was the leading cause of unsuccessful bids. Half of the participants surveyed estimated an average cost of bid to be between $50,000 and $100,000, with:

- **43 per cent** reporting a bid strike rate of **20-25 per cent** (Figure 8)
- More than half of the surveyed participants reported that **>50 per cent** of work won was with existing clients (Figure 9)
- **64 per cent** named the project manager as the most influential external lead source, with the remaining **46 per cent** named the client as the most influential external lead source.

Figure 8. Percentage of FY23 bid strike rate

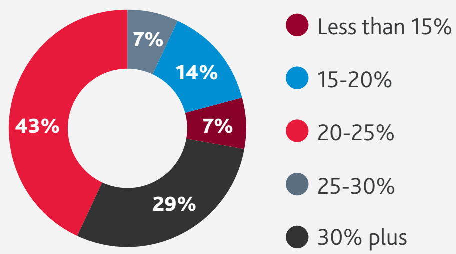
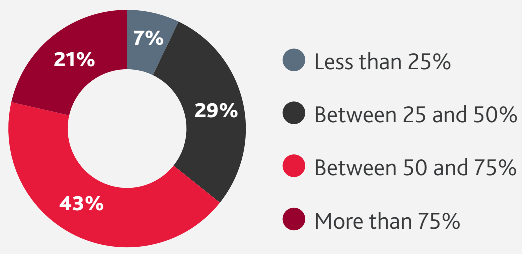


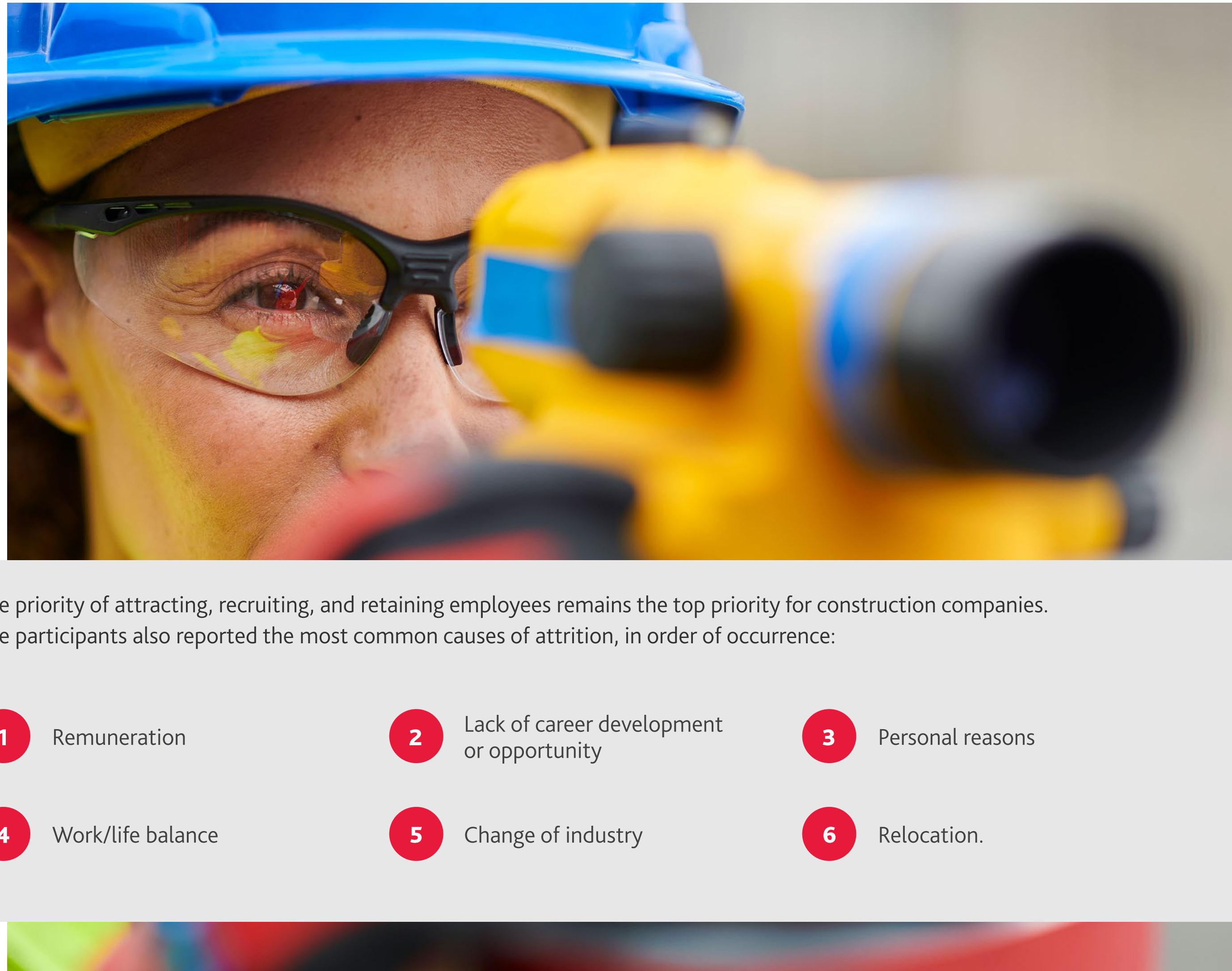
Figure 9. Percentage of work won with existing clients



BDO insights

Most participants attributed the success of their leads to the senior leadership team, demonstrating that a multi-skilled senior leadership team with strong business development skills will be instrumental in the organisation's success in winning bids. Beyond this, nurturing existing client relationships will be paramount moving forward as competition continues to increase in the industry.

Business risk



Business risk management is vital in minimising an organisation's financial losses, and for avoiding non-financial negative impacts such a reputational risks and safety incidences.

The top business priorities for the participants, in order of importance are:

1. Attracting, recruiting, and retaining employees

2. Improving safety performance
3. Providing an attractive workplace environment and employment conditions (culture)

4. Training and skills development for employees
5. Improving the quality of completed projects/client satisfaction.

The priority of attracting, recruiting, and retaining employees remains the top priority for construction companies. The participants also reported the most common causes of attrition, in order of occurrence:

1. Remuneration
2. Lack of career development or opportunity
3. Personal reasons
4. Work/life balance
5. Change of industry
6. Relocation.

BDO insights

Remuneration remains the top cause of attrition when compared against previous BDO surveys, highlighting the ongoing impact of economic difficulties and the rise in cost of living. However, boards and owners will need to consider how they are making their construction company 'fit for the future', as it will pay long-term dividends for those that look beyond pay-increases.

Employers will also need to delve further into understanding the organisation's value proposition and understanding what a business can do for an employee, rather than what an employee can do for them.

Environmental, Social and Governance (ESG)

Globally, momentum is building for mandatory sustainability and ESG reporting in response to increased supplier, consumer, and stakeholder mandates. The survey participants have demonstrated a positive level of ESG adoption with:

- **93 per cent** have implemented a level of ESG adoption which follows the issuance of the first two sustainability standards in June 2023
- **64 per cent** of participants have at least one full-time CSR/ESG staff member
- Of these participants with dedicated CSR/ESG staff, **27 per cent** have more than two full-time employees in the space.

Waste management remains a critical part of the sustainability of an organisation – not only informing their environmental impact and regulatory compliance (for waste disposal and recycling), but also affecting an organisation's resource conservation and cost savings.

Our participants noted that only **36 per cent** felt that they have accurate reporting on their waste management and recycling initiatives (Figure 11).

Figure 10. Stage of ESG adoption and implementation

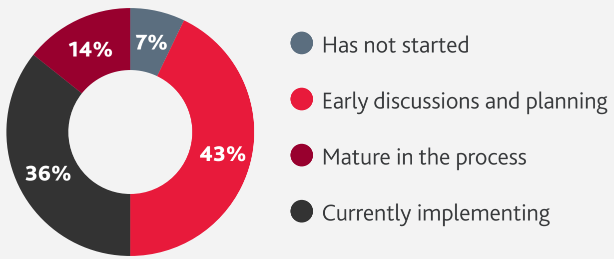
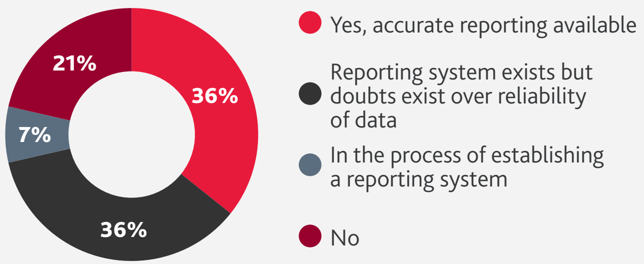
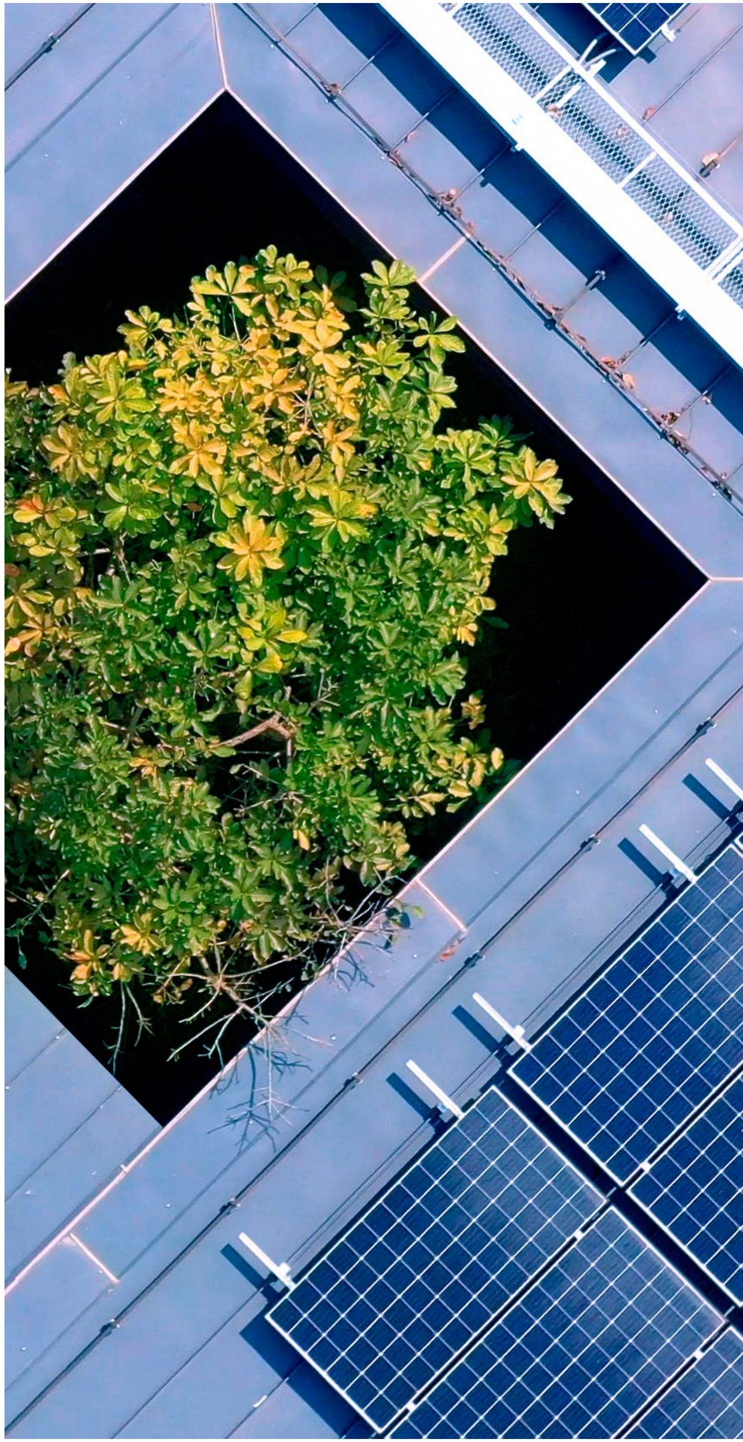


Figure 11. Measuring waste and recycling





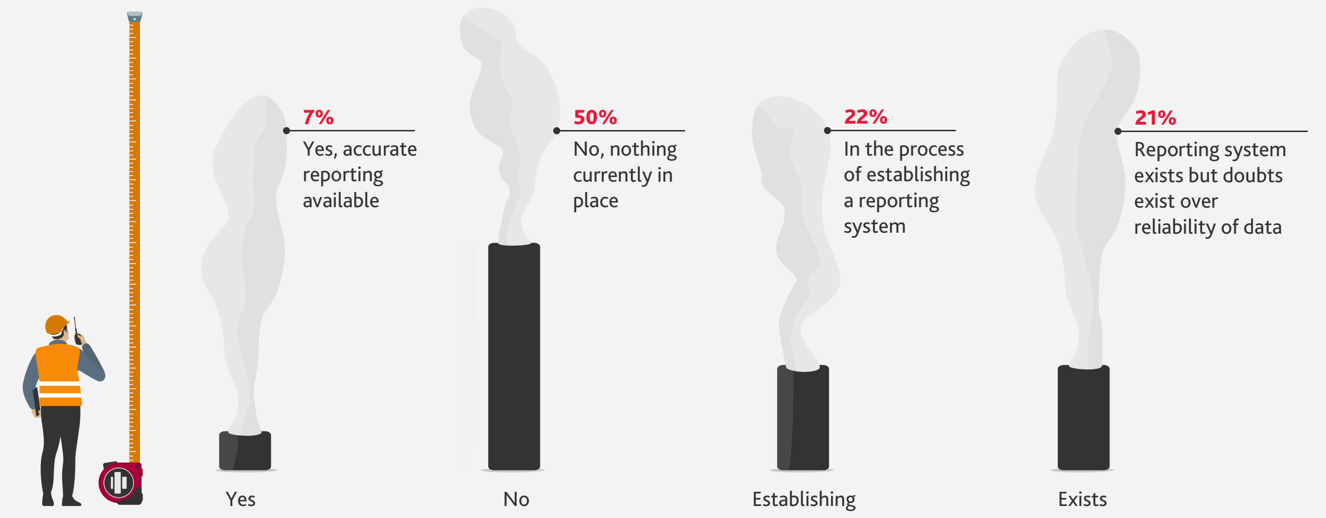
Environmental, Social and Governance (ESG) *cont.*

The GHG Protocol requires the classification of emissions across the value chain as either Scope 1, Scope 2 or Scope 3.

- **Scope 1** emissions are direct GHG emissions from sources owned/controlled by an organisation
- **Scope 2** are indirect emissions from the generation of purchased electricity consumed by the company
- **Scope 3** are also indirect emissions but occur from sources not owned or controlled by the company, often proving the most challenging to measure in the construction industry but account for up to 90 per cent of overall GHG emissions.

Despite the importance of the protocol, half of the participants reported no reporting processes in place to measure GHG emissions. However, it is worth noting that many reporting systems and tools for measuring GHG emissions are in their infancy and lack reliability.

Figure 12. Measuring GHG emissions



BDO insights

Many large entities and groups have started publicising decarbonisation commitments such as 'net zero by 2050'. To achieve these targets, they need to ensure all suppliers, customers and service providers throughout the value chain have similar commitments. We are already seeing instances where smaller businesses are given no choice but to measure their carbon footprint and prepare sustainability disclosures due to demand from other stakeholders. It is critical that organisations start actioning their ESG strategies soon - including measuring their GHG emissions as well as other sustainability metrics. All organisations will eventually need to address public and/or stakeholder reporting obligations.

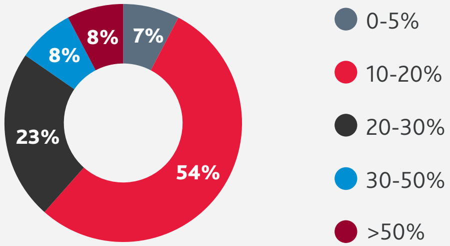
In jurisdictions like Europe, where sustainability reporting has been required for a number of years, other BDO offices have expressed that organisations who have not used this as an opportunity to encourage a cultural shift in the workforce but rather, are using a top-down approach to manage sustainability risks and opportunities, are finding it increasingly difficult to meet their targets. Although most Australians are not yet willing to pay a premium for sustainable products, they have indicated they will boycott an organisation which does not comply with the sustainability requirements.

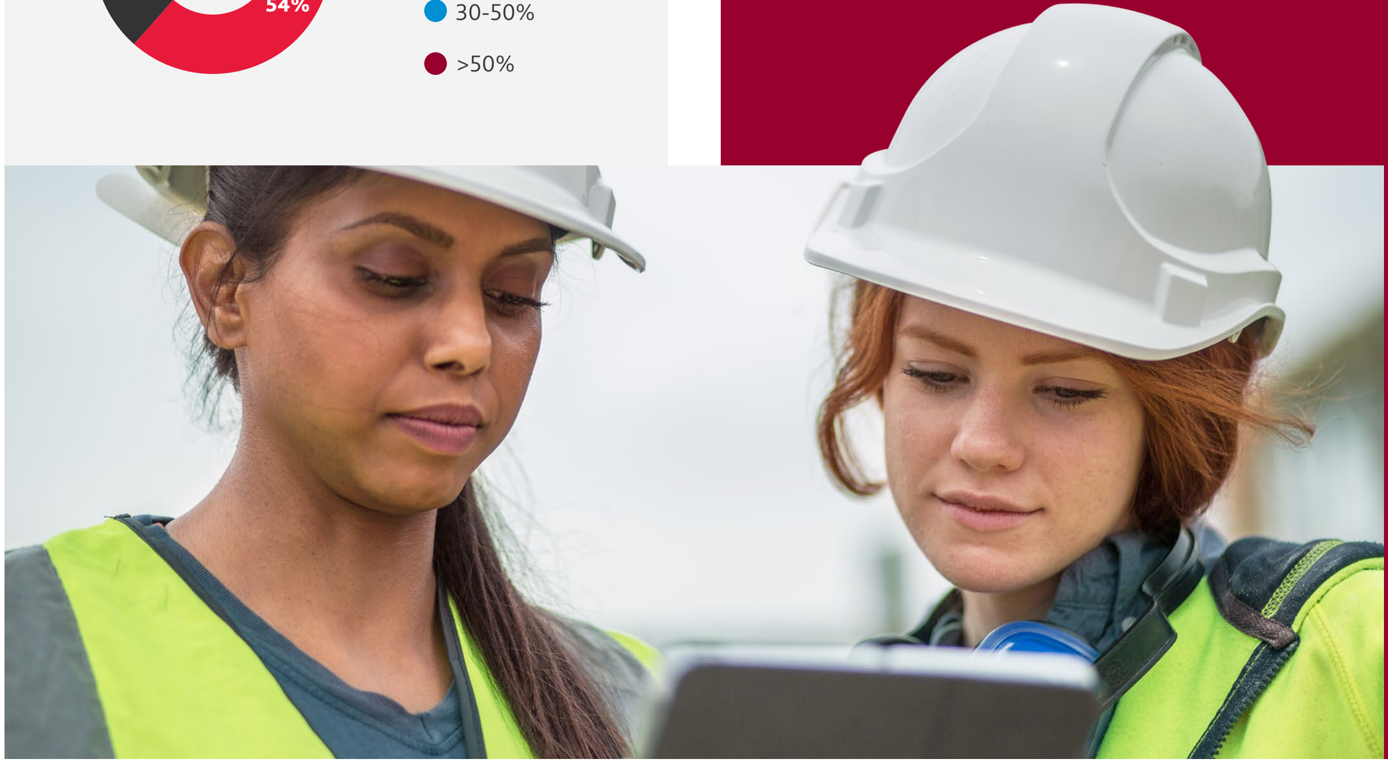
Diversity, equity and inclusion

Driving growth, innovation and productivity in the workplace is undeniably driven by diversity, equity, and inclusion (DE&I). Organisations who prioritise DE&I at all levels, especially in their leadership, lead within their industries as they focus on creating rich learning environments and positive cultures necessary for fostering ideation and innovation.

- **57 per cent** of participants reported a company-wide target Reconciliation Action Plan (RAP)
- Only **29 per cent** reported that they have indigenous spend targets when requested by clients for projects
- **14 per cent** don't have or are in the process of preparing a RAP
- **47 per cent** of participants don't have a social procurement plan while others have reported a range of plans from social enterprise, differently abled, to veterans
- As for gender diversity, **38 per cent** of participants had more than **20 per cent** of female representatives across all roles (salaried and wage-based staff)
- However, no participant had **20 per cent** or more of their senior roles held by females
- Gender pay inequality remains an issue with the median female employee fixed salary reported being on average $111,249 compared to $162,905 for a male counterpart.

Figure 13. All roles held by females





BDO insights

From the organisations surveyed, less than **25 per cent** of the workforce on average represent people that are under 30 years old. The construction industry must recognise the risks of not being able to meet demand if it cannot develop a reliable pipeline of young talent who see a bright future ahead for themselves in construction.

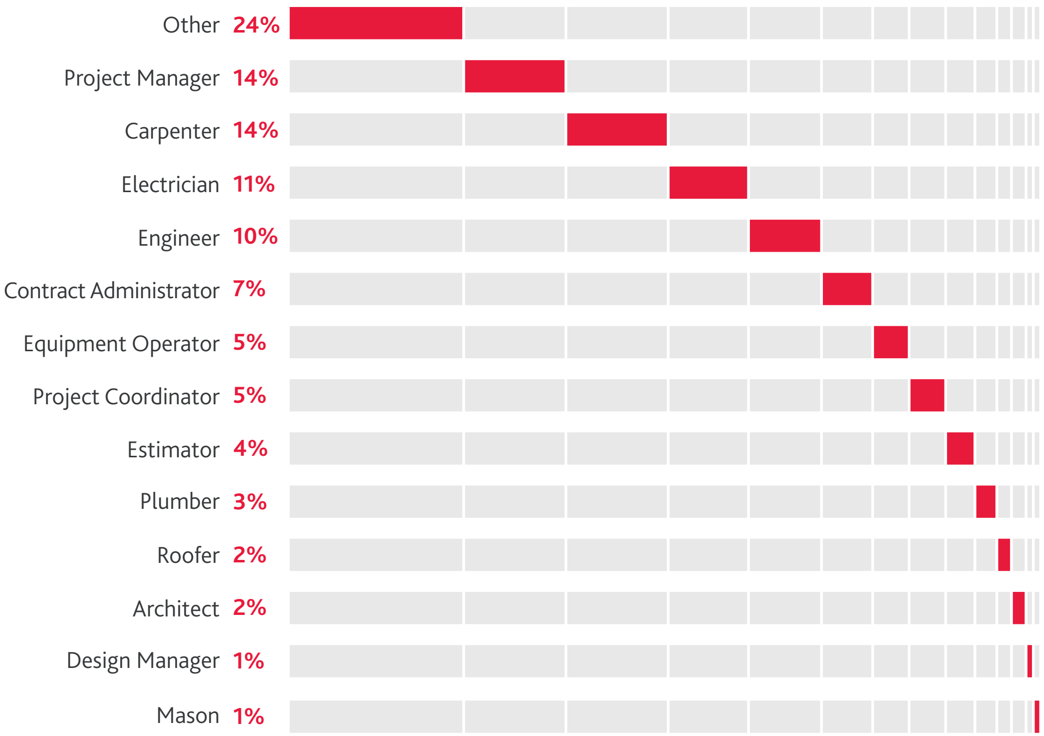
As the talent crisis intensifies, the construction industry needs to adopt a fresh approach to its talent strategies.

Alternative strategies are required to reposition the construction sector as an employer of choice for Australians, and to dispel the myths and misconceptions discouraging young talent from an otherwise rewarding and varied career in construction.

Well-being and staff retention

BDO surveyed over 200 construction workers to garner insight into the mental health and broader well-being of the workforce in construction. The participants targeted businesses with more than 20 employees and consisted of a broad spectrum of workers in the industry, and across the country (Figure 14).

Figure 14. Surveyed worker breakdown



Our key findings for the overall well-being of the participants were:

- **17 per cent** noted that they were dissatisfied with their physical health
- **20 per cent** noted that they were dissatisfied with their mental well-being
- Of those surveyed that work over a 5 day working week, **72 per cent** reported that a five-day working week would be better on their physical health, with **63 per cent** citing that this would have a positive impact on their mental health and **68 per cent** citing that it would improve their overall standard of living.

Some common themes emerged around worker's responses to common or shared concerns amongst co-workers around job satisfaction, engagement and the industry were listed as:

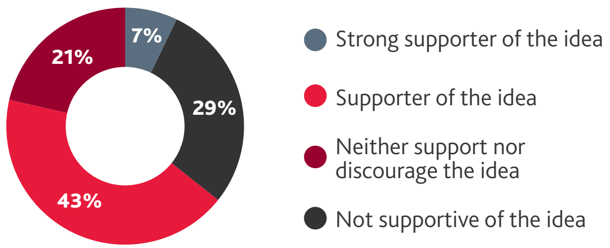
Well-being and staff retention *cont.*

Of particular interest is the support for a five-day working week, also mirrored by the construction companies who participated in the survey (**72 per cent** of construction companies were in favour of a five-day working week as per Figure 15).

However, several of the construction worker respondents noted that the implementation of a five-day working week would require the "whole" of the industry to change and close monitoring to ensure compliance across the board.

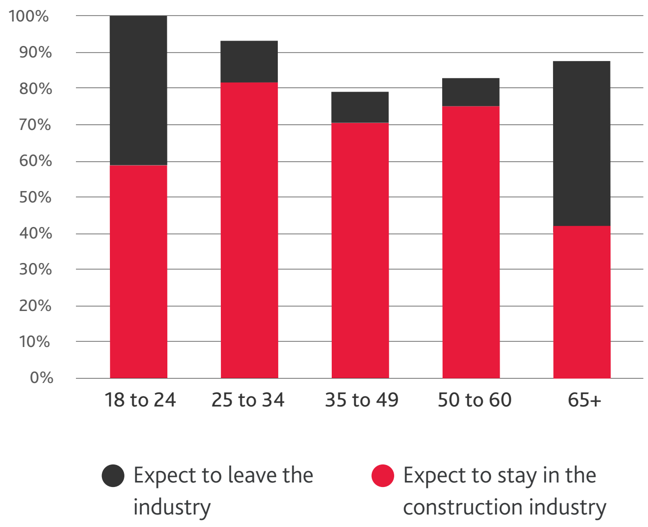
One of the respondents noted that the five-day working week would reduce productivity due to the need to extend construction programmes, resulting in increased costs and prelims.

Figure 15. Organisations view on adopting a five-day working week

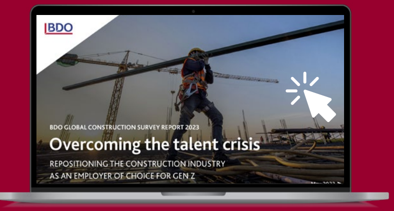


When asked whether the respondents could see themselves working in the construction industry in the next five years, **73 per cent** agreed, but when considering this question by age group, **41 per cent** of workers aged 18 to 24 (Gen Z) do not expect to be in the construction industry in the next five years (Figure 16).

Figure 16. Expected to stay in the construction industry in the next 5 years by age group



BDO insights



In BDO's Global Construction Survey: The Future Workforce, our market research found that young Australians (specifically, Gen Z) are more likely to associate a career in construction with financial reward compared to their global peers, but are turned off construction due to the prospect of hard physical work and the risk of injury.

Furthermore, there are differing visions for the future of construction where 50 per cent of Gen Zs want to see construction focus on promoting new science to ensure it is fit for the future and 30 per cent want to understand the interplay between ESG and construction. However, corporate decision-makers are less focused on these issues with only 16 per cent highlighting these as key messages in their recruitment strategies.

Australia has much ground to cover when it comes to sustainability reporting. Gen Zs are observing how an organisation integrates ESG into its business decisions and operations, as well as how organisations are actively participating in shifting global emissions.

The opportunity and challenge for construction companies in Australia is how they will enhance their ESG strategies, which encompasses well-being, and enhance its value proposition for Gen Z employees.

About BDO

BDO in Australia

BDO was established as an association of firms in Australia in 1975. Today, we are one of Australia's largest accounting, audit and advisory organisations, with offices in New South Wales, Northern Territory, Queensland, South Australia, Tasmania, Victoria, and Western Australia.

We support clients of all types and sizes, from large corporate organisations to private businesses, start-ups, entrepreneurs, and individuals across an array of industries and sectors.

We're working towards a strong future as a global organisation built on local relationships and exceptional client service.

Our global presence

BDO's global network extends across 164 countries and territories, with over 111,300 people working out of 1,803 offices.
We're all working towards one goal: to provide you with exceptional client service. That means local resources who understand your business and industry, backed by a truly global network.

No matter where you do business, we have people who know your business.

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