MASTER BUILDERS
AUSTRALIA

Submission to the Senate Finance and Public Administration References Committee

Financial support for state and territory infrastructure projects

30 January 2026

WHO WE ARE

Master Builders is the nation's peak building and construction industry association, which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 130 years, the Master Builders network has grown to more than 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association representing all three sectors: residential, commercial, and civil construction.

The Master Builders network also delivers vocational education and training through its network of registered and group training organisations across Australia. This includes trade qualifications in building and carpentry as well as ongoing professional development training.

Membership with Master Builders is a stamp of quality, demonstrating that a builder values high standards of skill, integrity, and responsibility to their clients.

Master Builders' vision is for a profitable and sustainable building and construction industry.

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Executive Summary

On 26 November the Senate referred an inquiry into the financial support for state and territory infrastructure projects to the Finance and Public Administration References Committee for inquiry and report by 30 March 2026.

This submission addresses the design, assessment and oversight of Commonwealth infrastructure funding with a particular focus on delivery capacity, sequencing and enabling infrastructure.

Current funding and assessment arrangements insufficiently account for construction market capacity and the role of enabling infrastructure in unlocking housing supply. As a result, public investment is frequently delivered late, at higher cost, and with diminished economic and housing outcomes.

For a sector dominated by small to medium businesses, ensuring procurement principles and practices support these businesses is critical to meeting Australia's infrastructure and construction needs. The Australia Government has already taken positive steps towards addressing these issues (such as through the requirement that only Australian businesses be invited to tender for government construction contracts valued below $7.5 million); however, longstanding break points remain that must be addressed now to ensure Australia can deliver the infrastructure pipeline successfully.

Drawing on industry experience, previous Master Builders Australia submissions and Infrastructure Australia's 2025 Market Capacity Report, this submission proposes that Commonwealth funding decisions must move beyond project-by-project assessment and explicitly address sequencing, capacity constraints and delivery discipline. The Commonwealth is uniquely positioned to drive better outcomes through its funding leverage over states and territories.

Key Recommendations:

Utilising existing practices that achieve the intended outcomes can be drawn from the approach to the delivery of government funded projects taken by the Department of Defence.

The Department of Defence has made substantial advances in developing and implementing policies to ensure local contractors and subcontractors can realistically and fairly tender for projects in their regions. The Federal Government's Defence local procurement framework is an effective model that should apply to future government investments such as funding agreements for transport and Olympic Games infrastructure.

Drawing on that approach the following recommendations highlight the importance of getting procurement practices right.

1. Criteria and processes for assessing, prioritising and allocating funding

Commonwealth assessment processes should explicitly account for construction market capacity, delivery readiness and sequencing impacts across the broader infrastructure and housing pipeline. Projects should be assessed not only on strategic merit but on whether their timing and design are realistic and whether they support or undermine housing supply and private sector delivery.

2. Transparency, consistency and accountability of funding decisions

The Commonwealth should improve transparency by clearly disclosing the assumptions, conditions and sequencing expectations attached to funding decisions. Material changes to project scope, timing or cost should be publicly reported and reconciled against the original assessment rationale to strengthen accountability.

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3. Assessment of viability and appropriateness of projects

Independent assessment of projects should extend beyond economic appraisal to include delivery viability. This should cover procurement models, risk allocation, contract packaging and local market capacity to ensure projects are realistically deliverable and appropriately structured.

4. Consideration of economic, social, cultural and community impacts

Housing supply and affordability impacts should be treated as core economic and community considerations. Where projects provide enabling infrastructure, assessments should explicitly consider their role in unlocking housing and supporting community growth.

5. Federal oversight, governance and public reporting

Commonwealth oversight should focus on delivery outcomes rather than expenditure alone. For enabling infrastructure, funding agreements and reporting frameworks should track sequencing performance and housing outcomes to ensure infrastructure investment translates into timely and tangible benefits.

Detailed responses to the Terms of Reference are below.

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Australia's Building and Construction Industry

This time last year, we were looking forward to interest rate cuts finally kicking off. It now seems that 2026 will be a year of rising interest rates as the RBA grapples with renewed inflationary pressures and a tighter labour market. At the time of writing, the cash rate stood at 3.6 per cent – with financial markets' collective pricing behaviour suggesting a 4 per cent rate by the end of 2026.

There are positive signs in some places. New home building approvals posted an encouraging 15.2 per cent rise in November, delivering the strongest monthly result since early 2022. Higher-density approvals surged by an exceptional 36.3 per cent, their best month since mid-2018, while detached house approvals increased only marginally. During the September 2025 quarter, new home building starts enjoyed their strongest quarter since early 2022.

However, we are still trailing our National Housing Accord targets. The first 15 months of the Accord saw 230,658 new homes started across Australia. If we were on track to deliver the Accord, 300,000 new homes would have been delivered by now. This represents a shortfall of over 69,000 homes and means that about 65,000 new homes need to be built per quarter on average over the remainder of the Accord. This compares with the 49,000 new homes that were started in the September 2025 quarter.

Inflation surged to 3.8 per cent in December 2025, and remains above the RBA's target, with housing costs and widespread labour shortages continuing to drive price pressures. Rental inflation sits at 4 per cent, while the cost of new dwelling construction rose 2.8 per cent over the year. Industry-wide capacity constraints – particularly labour shortages and weak productivity – remain barriers to expanding supply and reducing housing-related inflation.

Tight labour market conditions are fuelling inflation. During December 2025, Australia's unemployment rate declined to 4.1 per cent, the lowest in seven months. The same month saw 65,000 new jobs generated across the economy – the vast majority of which were full time rather than part time. This is further proof of how strong demand is for labour.

Construction insolvencies rose to a record 3,561 in 2025, though late-year data suggests that some states are seeing fewer insolvencies. Despite the pressures, construction business numbers reached near-record levels in June 2025, with 462,863 firms operating across Australia. This is more than any other industry.

Construction was the strongest contributor to GDP growth in the latest quarter, with value added rising 1.8 per cent. Building work done grew strongly, particularly in residential construction, which reached its highest volumes in several years. Wage pressures are re-emerging, with construction wages up 3.2 per cent over the year, reflecting skills shortages and declining productivity.

Home lending showed modest overall growth, but investor activity accelerated sharply across several categories, especially for newly built homes. First home buyer loans also increased, including a growing share for investment purposes.

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The Infrastructure Context

Public infrastructure accounts for a substantial share of construction activity. In the year to September 2025, engineering construction totalled $152.6 billion nationally, with $69.4 billion delivered for the public sector. At the same time, the national construction pipeline remains historically large and increasingly complex.

Infrastructure Australia's 2025 Market Capacity Report identifies that Australia faces sustained and structural constraints in construction capacity, particularly in skilled labour, materials and experienced contractors. These constraints are no longer cyclical. They are amplified by poor sequencing, fragmented pipelines and procurement models that deter participation by capable firms.

Within this environment, the timing and design of Commonwealth infrastructure funding decisions have a decisive influence on delivery outcomes, costs and spillover impacts on other sectors, most notably housing.

Enabling Infrastructure and Housing Supply

Housing supply constraints in Australia are increasingly driven by the failure to deliver enabling infrastructure in a timely and coordinated manner. Transport connections, trunk water and sewerage, energy distribution and social infrastructure are routinely delivered after housing land has been rezoned or approved, rather than ahead of development. This also stems from a land-release bottleneck in which releases are made in expectation of speculative windfalls.

This mis-sequencing increases holding costs, raises risk premiums (especially for construction businesses where risk can be 100 per cent) and results in approved housing sites remaining undeveloped for extended periods. The effect is to artificially constrain effective housing supply even where land availability and market demand are strong.

The Infrastructure Australia 2025 Market Capacity Report highlights:

- Projected peak workforce shortage of 300,000 workers by 2027, with regional shortages quadrupling.
- Regional demand (especially Queensland, Northern Territory, South Australia, New South Wales) expected to more than double in key areas.
- Persistent productivity challenges, heavy subcontracting (41 per cent of infrastructure), and low uptake of modern methods of construction.[1]

State and territory governments have demonstrated a persistent inability to align enabling infrastructure delivery with housing objectives. Commonwealth infrastructure funding therefore plays a critical role in shaping housing outcomes, not through planning controls but through funding conditions and sequencing requirements.

Where Commonwealth funds support enabling infrastructure, those funds should be explicitly linked to housing delivery milestones and sequencing obligations. Without this linkage, infrastructure investment risks exacerbating housing shortages rather than alleviating them.

[1] IA2025_Market Capacity Report.pdf

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Why infrastructure funding design matters

The scale of public infrastructure investment means funding decisions materially affect construction capacity, productivity and costs across the economy. Poorly timed or poorly structured investments crowd out private activity, intensify labour shortages and drive cost escalation.

Conversely, well sequenced investment can smooth construction cycles, support workforce development and unlock private investment, including housing. The Commonwealth therefore has both the responsibility and the opportunity to use its funding role to shape better outcomes.

Intergovernmental Funding Arrangements

Commonwealth infrastructure funding is typically delivered through intergovernmental agreements and project specific funding deals. The Brisbane 2032 Olympic and Paralympic Games intergovernmental agreement provides a contemporary example. While such agreements establish funding commitments and governance structures, they generally leave procurement, sequencing and risk allocation to state governments.

In practice, this limits the Commonwealth's influence over delivery discipline unless conditions are tightly specified at the project level. Broader frameworks governing federal financial relations operate alongside specific deals but do not override them.

This reinforces the need for Commonwealth funding agreements to include clear and enforceable requirements relating to sequencing, capacity management, procurement practices and reporting.

What is failing in current arrangements?

The experience of Industry over many years highlights recurring failures in infrastructure delivery frameworks.

Procurement practices frequently bundle projects into contracts of a size and risk profile that exclude otherwise capable local firms, particularly SMEs. Excessive risk transfer, complex 'bespoke' contracts and unrealistic programming deter participation, reduce competition and undermine delivery capacity.

Consultation with industry and impacted stakeholders often occurs too late, after funding announcements have been made and delivery timelines fixed. This results in infrastructure pipelines that bear little relation to market capacity and are vulnerable to delay and cost escalation.

These issues were identified in Master Builders Australia's 2021 submission to the House of Representatives inquiry into procurement practices. They remain unresolved and have become more acute as pipeline pressure has intensified.[2]

Master Builders' Prior Recommendations to Government Procurement

Before addressing the specific Terms of Reference, it is important to note that Master Builders has previously provided detailed evidence to the Parliament on many of the delivery failures relevant to this inquiry. In 2021, Master Builders recommended that Commonwealth infrastructure funding decisions give greater weight to delivery realism, market capacity, procurement strategy and sequencing, rather than relying predominantly on high level economic appraisal.

[2] Master Builders Australia (2021) Submission to the House of Representatives Standing Committee on Infrastructure, Transport & Cities | Inquiry into procurement practices for government-funded infrastructure

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Master Builders also recommended that Commonwealth funding agreements be used as a mechanism to influence state and territory behaviour, particularly in relation to procurement models, risk allocation and project packaging, to improve competition, capacity utilisation and delivery outcomes.

The failure to adopt these recommendations has contributed to the current environment of constrained capacity, delayed delivery and crowding out of housing and private construction. The responses to the Terms of Reference below should be understood in this context, reinforcing the necessity to set the fundamentals for government procurement practices according to robust, sequenced, and transparent reporting.

Response to the Terms of Reference

1. Criteria and Processes for Assessing and Allocating Funding

Formal assessment processes exist, including business cases and Infrastructure Australia evaluations. However, from an industry perspective the weighting applied to readiness, delivery capacity and sequencing is opaque and inconsistent.

Current criteria focus heavily on strategic alignment and economic appraisal while insufficiently testing whether projects can be delivered within existing market constraints or whether their timing will crowd out housing and private construction.

For instance, Infrastructure Australia's Market Capacity Reports consistently warn that Australia's construction sector is facing *structural capacity constraints*, including forecast shortages of up to 300,000 workers as infrastructure demand increases. These constraints are not adequately factored into funding decisions that assume timely and on-budget delivery.[3]

Assessment criteria should explicitly address construction market capacity, interactions with housing supply and the readiness of enabling infrastructure to unlock private investment.

2. Transparency Consistency and Accountability

Transparency is weakest at the transition from announcement to delivery. Funding announcements are often made without disclosure of key assumptions, conditions or capacity impacts.

Subsequent changes to scope, timing or cost are poorly reported and rarely reconciled with original assessment outcomes. This undermines accountability and confidence in decision making.

For instance, in 2023, the Australian government cancelled 50 high-risk infrastructure projects due to cost blow-outs or poor assessment processes.[4] This cancellation followed an independent review of then current government procurement practices, which found these practices were not fit for purpose and were undermining public trust in these procurement practices.

More consistent public reporting of assessment outcomes, funding conditions and post decision changes is required to support competitive tendering and robust stakeholder engagement.

[3] IA2025 Market Capacity Report.pdf
[4] 'High-risk' infrastructure project funding axed as federal government contains spending - ABC News

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3. Assessment of Viability and Appropriateness of Projects

Business cases frequently understate delivery risk, particularly in relation to procurement strategy, risk transfer and local capacity. Independent assessments tend to focus on cost benefit ratios rather than delivery realism.

For example, Victoria's West Gate Tunnel and Suburban Rail Loop have experienced substantial cost overruns and delivery delays linked to poor scope definition, premature announcements and risk allocation issues. Researchers attribute these problems to shortcomings in project definition and sequencing, supporting the call for stronger independent assessment of procurement models and market capacity.[5]

Projects receiving Commonwealth funding should be subject to stronger independent assessment of procurement models, market capacity fit and regional delivery impacts. This includes testing whether project scale and packaging are appropriate for local markets.

4. Consideration of Economic, Social, Cultural and Community Impacts

While economic and social impacts are routinely referenced, housing supply and affordability impacts are rarely treated as core assessment considerations.

Infrastructure Australia notes that business cases often exclude disruption impacts (e.g. congestion, local access, cultural heritage effects) even though these have real distributional effects on communities during construction, demonstrating a gap in how social and community impacts are currently considered.[6]

Infrastructure that enables housing should be explicitly assessed on its capacity to unlock dwellings, reduce time to market and support broader community outcomes. These impacts should be considered alongside traditional economic metrics.

5. Oversight Governance and Public Reporting

Current oversight mechanisms focus on financial compliance rather than delivery outcomes. Progress reporting often measures expenditure rather than timeliness, effectiveness or downstream impacts.

For example, Infrastructure Australia's reports highlight labour market shortages as a critical delivery risk, yet there is limited evidence that funding conditionality has been used systematically to manage or mitigate these risks. Projects continue to experience timeline extensions and cost increases, indicating an oversight gap.[7]

Where Commonwealth funds support enabling infrastructure, oversight frameworks should include explicit housing delivery indicators, such as lots or dwellings enabled and alignment with housing targets. This would strengthen governance and ensure infrastructure investment delivers intended outcomes.

[5] Victoria's major projects facing cost overruns and delivery delays - Build Australia
[6] IA2025_Market Capacity Report.pdf
[7] Ibid.

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