KPMG
cutting through complexity

GLOBAL CONSTRUCTION SURVEY 2015

Climbing the curve

Australia and New Zealand Perspective

June 2015

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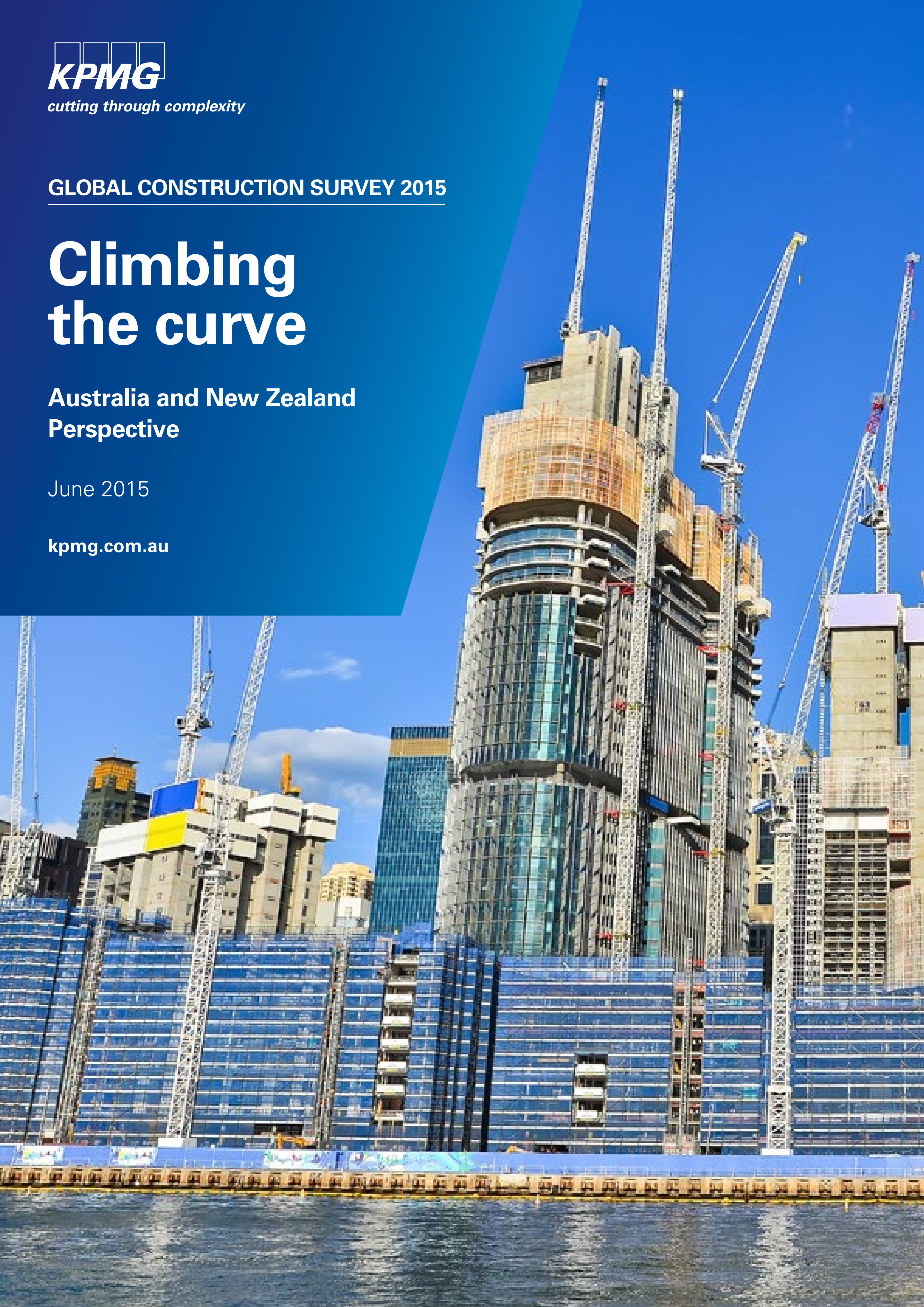


Australian and New Zealand projects compare favourably with the world's best in terms of project delivery processes, according to the results of KPMG's *2015 Global Construction Survey.*

KPMG's *2015 Global Construction Survey* focussed on project owners, with 14 percent of respondents coming from Australia and New Zealand. A wide range of project owners were interviewed, covering both public and private sectors from a broad range of industries.

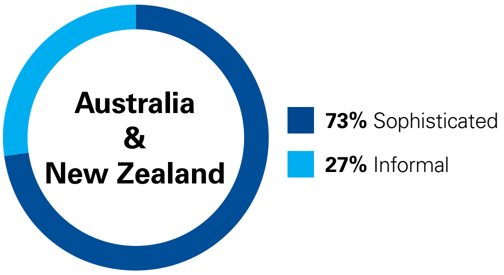
Australian and New Zealand projects compared well on a global scale in terms of budget and schedule performance, sophistication of management controls, reporting from contractors and risk management. The news for Australian and New Zealand projects was not all positive however, with a number of areas where Australia and New Zealand lags the rest of the world, such as in the diversity of contract types utilised.

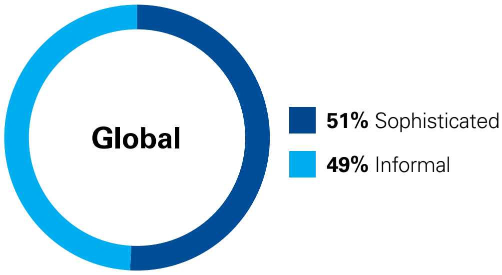
Ahead of the curve

There are a number of areas where the maturity of Australian and New Zealand systems and governance compares favourably to the rest of the world. Examples of these are highlighted in the diagrams that follow.

Sophistication of project management controls

Seventy three percent of project owners use 'sophisticated' management controls over projects compared with 51 percent globally.





One of the highlights for Australian and New Zealand projects was in the sophistication of management controls over projects, with 73 percent of Australian and New Zealand respondents using 'sophisticated' management controls compared to 51 percent globally.

Mitchell Petrie, Partner in Charge for Major Projects Advisory in Australia, puts this down to the recent number of mega projects in Australia on the back of the mining boom. "In the last 5 years in Australia we have seen a spike in energy and natural resources mega projects, and this has focused the world's best construction professionals and contractors on the Australian construction market, bringing with it an increased maturity in project delivery processes".

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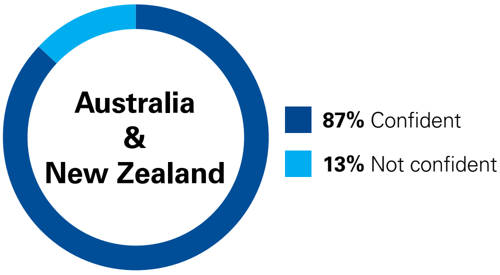
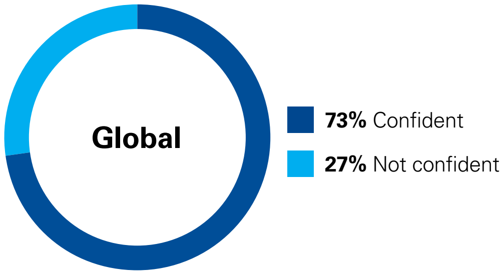
Major Projects Advisory

Confidence in contractor reporting

Eighty seven percent of project owners were confident in the reporting obtained from contractors compared to 73 percent globally.



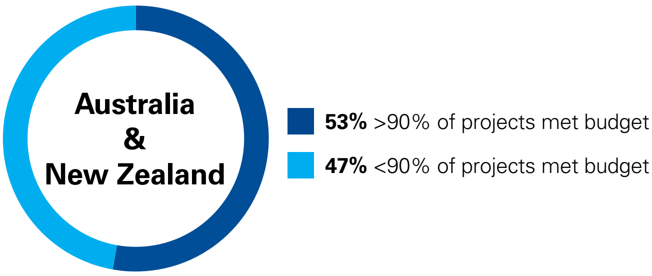


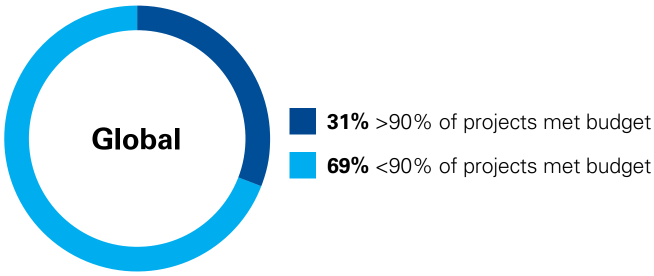
Australian and New Zealand contractors compared well to their global peers in terms of project owners' confidence in their reporting, with 87 percent of Australian and New Zealand respondents confident in the reporting received from contractors compared to 73 percent globally.

Tier one contractors in Australia and New Zealand are among some of the largest in the world, and with that comes a level of maturity in reporting that is evident in the Australian and New Zealand Global Construction Survey results.

Project budget performance

Fifty three percent of Australian and New Zealand respondents stated that more than 90 percent of their projects met their budget compared to 31 percent globally.

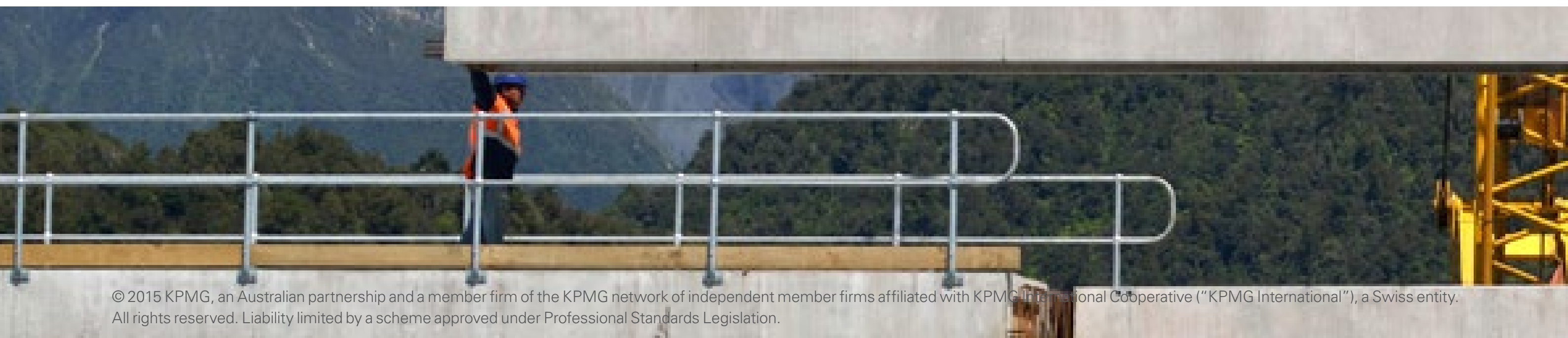




The last 2 years has seen an overall decline in construction activity in the region as the mining boom has come off its peak. This is reflected in the heightened competition in the contracting market, and is a likely factor in Australia and New Zealand's favourable results in terms of project budgetary performance, as increased competition has seen downward pressure on pricing.

Fifty three percent of Australian and New Zealand respondents reported that >90 percent of projects met their original budget compared with 31 percent globally. For project owners looking to execute a major project, the current market conditions are favourable in terms of available contracting resources.

Sixty seven percent of respondents expected that project owners will have increased negotiating strength with contractors in 5 years' time, further evidence that the continued depressed market conditions for contractors is resulting in favourable market conditions for project owners.



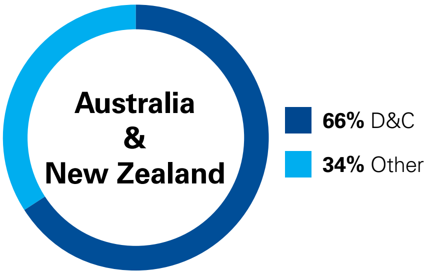
Behind the curve

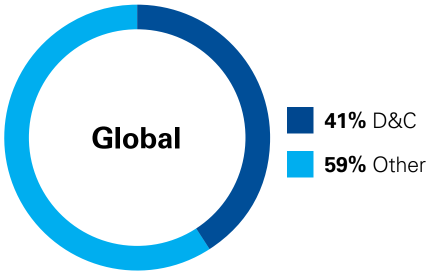
Whilst the maturity of the Australian and New Zealand systems and governance compare favourably to the rest of the world in some categories, there are other areas in which Australia and New Zealand lags the global market.

Variety of contracts used

Use of D&C contracts

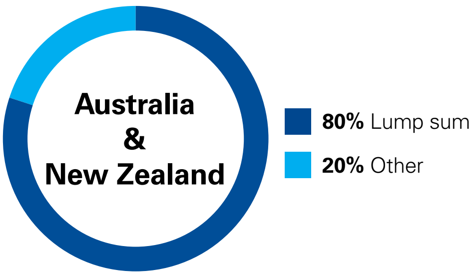
Sixty six percent of project owners use D&C contracts as their predominant contract, compared to 41 percent globally, where there is a greater mix of contracting styles used.

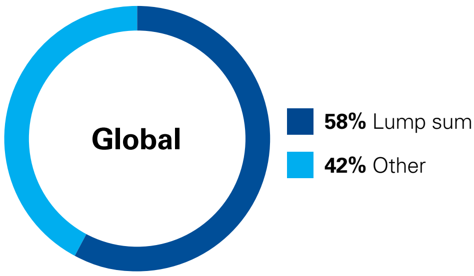




Lump sum contracts

Eighty percent of respondents still predominantly use lump sum contracts compared to 58 percent globally.

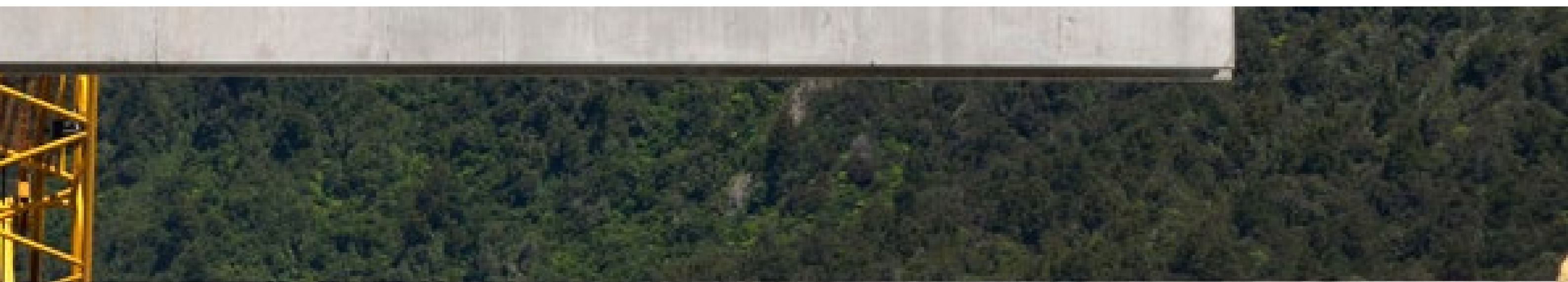




Australian and New Zealand project owners are not embracing a wide variety of contract types compared to project owners globally.

Sixty six percent of Australian and New Zealand owners utilise design and construct or design then construct contracts as their primary contract type, compared with 41 percent globally.

A challenge for project owners is to match the risk of the project with the most appropriate contracting method.



Conclusion:
5 steps to greater maturity

KPMG's *2015 Global Construction Project Owner's Survey* reflects the excellent progress made by owners in planning, risk management and execution in recent years. It also highlights a few areas where owners are still striving to improve. As they climb the project management maturity curve, both private and public organisations should consider the following issues:

1

A fresh approach to talent management

- An effective recruitment, development and retention strategy should encompass data analytics to help predict future talent needs.
- By widening the net of potential candidates, organisations can attract candidates with new ways of thinking to augment the existing pool of engineers.
- Owners must find ways to tap into the skill base of older or retiring employees.

2

Integrated project management information systems

- The scale and complexity of many of today's construction projects call for swift coordination and real-time reporting.
- A fully integrated PMIS can keep key stakeholders informed of schedule and cost status, and help enable faster decision-making to keep projects on track.

3

Realism eats optimism for breakfast

- Owners should demand practical targets from contractors based upon realistic expectations of what can go wrong.
- Scheduling needs to balance sufficient slack with targets that stretch.
- If required, owners may seek external scheduling expertise to ensure that they understand the workflow and the full financial impact of delays.

4

Sophistication in contingency

- Contingencies should encourage prudent cost management and not be an excuse for overspending.
- The use of a management reserve acknowledges the potential for uncontrollable risks, while a draw-down approach enables project managers to react quickly and flexibly to situations, whilst maintaining strong control over expenditure.

5

Building an extended team

- Project owners must invest in relationships with contractors to raise mutual trust and discuss problems or shortcomings.
- Rather than simply passing all or most of the risk to the contractor, it is preferable to create an integrated project team with common goals and rewards.
- Where contractors are felt to be lacking in certain skills, owners can discuss how to enhance the team with external expertise.

ABOUT THIS REPORT

This report highlights how Australian and New Zealand construction projects compare on a global scale, according to the results of KPMG's *2015 Global Construction Survey.*

The full report features in-depth analysis of the survey results, which are based on interviews with executives from over 100 private and public organisations around the world that carry out significant capital construction activity.

For the full *2015 Global Construction Survey* report, please visit kpmg.com/au/gcs

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June 2015. NSW_N13011ADV.