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Productivity Commission Review of Australia's Productivity Performance

The Civil Contractors Federation (National) thanks the Productivity Commission for the opportunity to provide a submission on the review of Australia's productivity performance. We are pleased to provide eight key recommendations to boost productivity in Australia's civil construction industry, and more broadly, in the Australian economy.

By way of background, the Civil Contractors Federation National (CCF) is the peak national voice of the civil infrastructure sector representing more than 1,900 companies engaged in the civil construction industry in Australia. CCF members are responsible for the construction and maintenance of Australia's civil infrastructure, including roads, bridges, pipelines, drainage, ports and utilities.

CCF's productivity priorities are aligned with our national 'policy pillars' which are aimed at leading Australia's economic recovery and achieving a stronger and more sustainable civil construction industry. These pillars are:

- Sustained level of long-term Infrastructure Investment
- Efficient, Equitable and Competitive Procurement
- Enhancing Skills Development & Training
- Enhancing Industrial Relations
- Building a Stronger, More Sustainable Industry

CCF's eight recommendations are largely drawn from our 2021 report *Rebuilding Australia – A Plan for a Civil Infrastructure Recovery* ([click here](#)) which focuses on the importance of civil infrastructure investment and policy reform to counter the economic impacts of COVID-19.

CCF notes and supports the following statement on page 3 of the Productivity Review Discussion Paper:

*Ultimately, decisions affecting productivity are made by individuals and businesses in the market and nonmarket sectors, **but government has a key role to play. Policy settings can either aid or hinder the achievement of productivity growth.** For example, government influences the ability of households and businesses to innovate and adapt to changes in the economic environment through establishing and enforcing **regulatory arrangements, providing infrastructure, building skills** and offering a safety net for the most vulnerable in society.*

CCF's submission will focus on these key issues of regulation, infrastructure and skills as they apply to Australia's civil construction industry.

CCF's key recommendations for the Productivity Commission's consideration are:

1. State and territory procurement agencies be required to report their inhouse capabilities to manage all federally funded infrastructure projects through the National Partnership Agreement to ensure they have appropriately qualified and sufficient staff to undertake proper pre-project planning

2. Procurement agencies be required to adopt Infrastructure Australia’s best practise for infrastructure planning and delivery guidelines, *Infrastructure Decision-making Principles* as a condition of federal government funding on all infrastructure projects.
3. Procurement agencies be required to simplify and streamline their procurement processes where possible to improve industry productivity.
4. Collaborative contracts must be genuinely considered by procurement agencies when the circumstance warrants it.
5. The Federal Government reinstate civil occupations on the National Skills Needs List as a matter of urgency. In addition, the federal Government to include private Registered Training Organisations as recipients for all Federal Government VET funded financial incentive schemes.
6. That the Productivity Commission acknowledge the pause by the Federal Department of Education Skills and Employment of its review of the NSNL and in its report recommend the completion of the review by the Department as a matter of urgency.
7. Allocate sufficient funding to the Department of Infrastructure, Transport, Regional Development and Communications to advance procurement reform.
8. The timely assessment of new quarry licensing renewals and new quarry applications to support the growing number of major projects in the infrastructure pipeline.

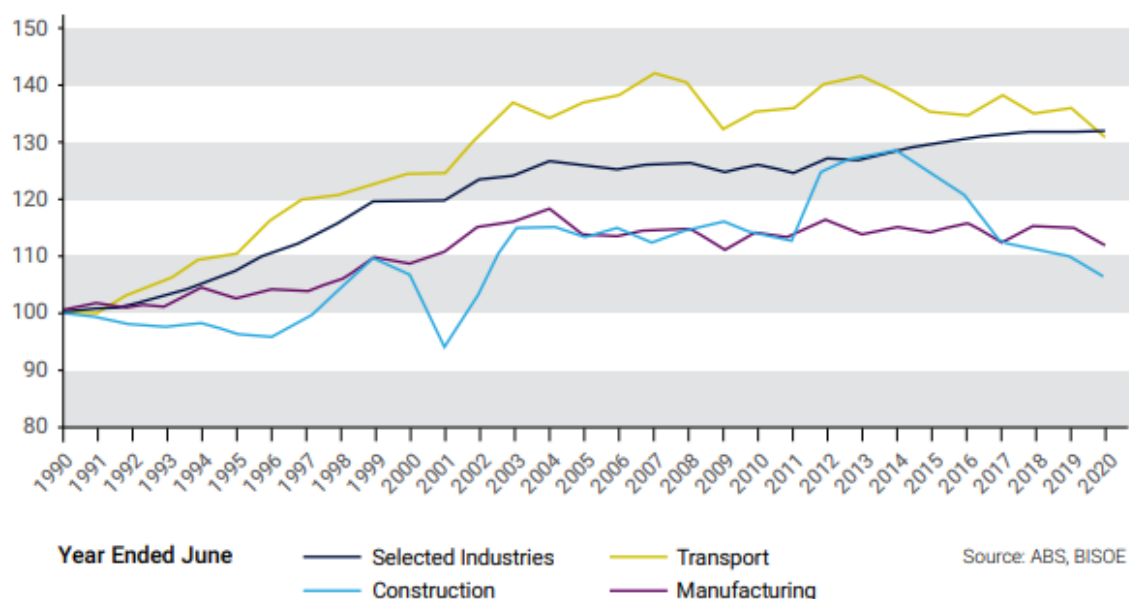
Current Situation

As outlined in CCF’s report *Rebuilding Australia – A Plan for a Civil Infrastructure Recovery*, a key problem facing the construction industry is worsening productivity. Falling productivity, by definition, means that more labour and capital is required to achieve a given level of output. This not only reduces capacity and capability but increases costs in delivering infrastructure.

Poor productivity growth results in infrastructure being more expensive to plan and deliver. For governments and private project owners this threatens value for money in infrastructure delivery and deteriorates community expectations of infrastructure access, quality, and the price of patronage.

The construction industry has lagged well behind all other sectors in terms of multifactor productivity growth since 1990. Construction productivity has grown just 0.2% per annum compared to 1.0% per annum for other industries (excluding manufacturing) and 0.5% per annum for manufacturing. Productivity in the construction industry today stands at levels seen in the late 1990s.

Figure 1 - Multifactor Productivity Indexes by Industry, 1990-2020



Cause of Poor Productivity - Poor Planning and Identification

In conjunction with increasingly complex projects, the quality of planning for projects has suffered in recent history due to weakening in-house technical capability of procurement agencies. These current conditions are a legacy issue tied to technical expertise lost during the scaling back of the public sector during the 1990s and 2000s. COVID-19 stimulus and ambitious timelines prescribed by policy announcements also can add time pressure to the planning of individual projects.

As planning is the first and one of the most vital stages of infrastructure delivery, miscalculations or poor judgement can significantly impact the entire chain of works required for project execution. Poorly defined scope of work results in industry assuming an inappropriate amount of responsibility for identifying and managing risks, and long and costly bidding processes to participate. Firms are then incentivised to accept the most risk rather than presenting the best value offer, impacting outcomes for both contractors and funders. At its worst, under investigated or inadequately defined works can cause budget blowouts, delays, and financial hardship.

Solution

Infrastructure Australia has defined best practice for infrastructure planning and delivery in its regularly revised “Better Infrastructure Decision Making Guidelines”. Here, decision-making processes for infrastructure and planning principles are laid out which can yield more positive outcomes for all participants. Cost reducing principles include:

- Taking inspiration for future planning from previous successes and those which utilised Infrastructure Australia’s guidelines and principles. Optimal planning and delivery follows a usual path: project identification in accordance with departmental strategies, thorough feasibility studies, proper risk assessment, and genuine engagement of stakeholders.
- Early involvement and collaboration with industry allows for better and earlier identification of risk. For the project funder it allows for more practical development of costings, timelines, and interface management. For industry this reduces specifications uncertainty, bid costs, and tendering times.
- Information is key in improving planning and delivery through previous experience. The best way to enable analytics is through consistent and unbiased collection of data. This allows for comparison of project delivery experiences including risk management and outcomes.

Recommendation 1

To ensure procurement agencies have appropriately qualified and sufficient staff to undertake proper pre-project planning, the CCF recommends state and territory procurement agencies be required to report their inhouse capabilities to manage all federally funded infrastructure projects through the National Partnership Agreement.

Recommendation 2

Procurement agencies be required to adopt Infrastructure Australia’s best practise for infrastructure planning and delivery guidelines, *Infrastructure Decision-making Principles* as a condition of federal government funding on all infrastructure projects.

Cause of Poor Productivity - Inefficient Tendering Processes

Unnecessarily long, burdensome and costly tender processes result in resources and skills being tied up until resolution. Reducing lengthy timelines is a priority for an industry that is already facing profitability and productivity challenges.

Solution

Methods to streamline the tendering process to improve industry productivity include:

- Shedding of repetitive bureaucratic and administrative processes for initial bidding stages.
- Involving industry partners in the planning stage for risk identification and optimal delivery methods.
- Shortlisting should optimally be simpler and faster to reach.
- More consistently and broadly publish prioritisation of cost and non-cost factors for individual projects.
- Move towards a suite of standardised contracts which include a range of procurement models.
- Narrowing contractors down based on experience and capabilities relevant to the works. Opportunities to collaborate and negotiate would then be extended to these firms.

Recommendation 3

CCF recommends that procurement agencies be required to simplify and streamline their procurement processes where possible to improve industry productivity.

Cause of Poor Productivity – Inefficient Risk Allocation

Inefficient allocation of risk is one of the most significant threats to the construction industry.

Inappropriate handling of risk identification and responsibility can be detrimental to project delivery, budget concerns, productivity, and the financial viability of the industry. Industry is increasingly being forced to assume greater risk in infrastructure contracts in order for funders to protect themselves.

This can occur at the expense of fairness and efficiency overall, and contractors have very little bargaining power to counter these offers. A pipeline that is dominated by these styles of contracts is unsustainable and unattractive for firms to participate in. As a consequence of higher risk derived from the work itself, firms are less willing to take on risk from other areas including training and skills development, R&D, and investment in innovation. This in turn impacts on industry productivity levels.

Without the investment from industry into these areas, a cycle of productivity stagnation is entered and perpetuated. Procurers suffer in this situation too, with methods of tackling engineering problems never improving in terms of cost or the quality of the end product being constrained. Funders may avoid risk by using particular models, but it does not eliminate risk. Risk is transferred to another party who may not be in the best position to manage it. This increases the chance of failure which drives the cost of infrastructure up across the sectors that engage in this behaviour.

Solution

Collaborative contracts must be genuinely considered when the circumstance warrants it. Under this arrangement, all parties share in the successes and failures of delivery. This set up does not create incentive for any participant to shift risk to another. Rather, it promotes effective risk identification and cooperative approaches to overcoming hurdles.

Collaborative arrangements have been used to appropriately distribute and manage risk across large and

complicated works.

Simple approaches to this include early contractor involvement which engages contractors through the design and planning process to identify risks and advise on possible delivery methods.

Well designed and implemented collaborative models may also have higher perceived cost than traditional set ups due to all risks being properly priced into the costs at the start than dealt with ad-hoc. Higher prices may also be a result of a higher quality product being approved, more commitment to training and skills development, or a more innovative solution being developed. All of these non-price benefits serve to reduce costs and improve productivity in future engagements.

Recommendation 4

Collaborative contracts must be genuinely considered by procurement agencies when the circumstance warrants it.

Cause of Poor Productivity – Insufficient Skills Funding

Skills are a clear and well understood driver of productivity, and as the Productivity Commission notes in its Discussion Paper, higher performing countries have strong productivity growth underpinned by enabling factors such as skills and capability to take up new technology and data.

Better managing the numbers of workers in the industry and upskilling them to appropriate levels hinges on ensuring apprentices, VET providers, and employers gain access to funding incentives provided by Federal and State Governments.

Under the Commonwealth Government's flagship program, the [Australian Apprenticeships Incentives Program \('AAIP'\)](#), an apprentice undertaking a Certificate III or IV qualification that leads to an occupation listed on the National Skills Needs List ('NSNL') may be eligible for additional employer incentives and personal benefits including Support for Adult Australian Apprentices payments, Rural and Regional Skills Shortage incentives, and Trade Support Loans.

Unfortunately, in many cases a civil construction apprentice, employer and training provider are ineligible for funding under the AAIP because a number of civil construction occupations are not listed on the [National Skills Needs List](#) (NSNL). These civil occupations need to be reinstated to the NSNL as a matter of urgency to ensure industry is not hampered in its efforts to deliver the Government's infrastructure agenda at both federal and state levels. Examples of occupations that need to be included on the NSNL include: including bridge, road and tunnel constructors, civil plant operators, pipe layers and line markers.

The CCF expresses its strongest objection to the Federal Department of Education Skills and Employment for pausing a review under its watch in 2020 of the NSNL following receipt of submission from CCF and other stakeholders and encourages the Productivity Commission to note this in its report and recommend the completion of the review by the Department.

Solution

In order to ensure that the civil construction sector is able to take full advantage of government funded training initiatives, the Federal Government needs to reinstate civil occupations on the National Skills Needs List. In addition, the federal Government should also acknowledge that private RTO's have a significant role to play in the VET sector as part of the overall skills strategy, and as such should be the recipient of any Federal Government financial incentive scheme.

Recommendation 5

The Federal Government reinstate civil occupations on the National Skills Needs List as a matter of urgency. In addition, the federal Government to include private Registered Training Organisations as recipients for all Federal Government VET funded financial incentive schemes.

Recommendation 6

That the Productivity Commission acknowledge the pause by the Federal Department of Education Skills and Employment of its review of the NSNL and in its report recommend the completion of the review by the Department as a matter of urgency.

Implementation of Procurement Reforms

The proposed solutions CCF provides to the Productivity Commission to address poor productivity in the infrastructure industry have been previously provided to the House of Representatives Standing Committee on Infrastructure, Transport and Cities' as part of its inquiry Procurement Practices for Government Funded Infrastructure. The CCF submission to the inquiry can be found on the [CCF website](#).

CCF's submission contains ten high level recommendations with the aim of building a more sustainable and productive civil construction sector in Australia by improving our sovereign capability. This in turn will enhance the sector's contribution to Australia's economic recovery efforts.

A number of the recommendations put forward by CCF will require greater resourcing for the Department of Infrastructure, Transport, Regional Development and Communications to deliver on industry's proposed reforms. These include, for example,

- the Department being appropriately resourced to ensure they have appropriately qualified and sufficient numbers of procurement staff commensurate with the Commonwealth procurement workload to ensure timely and streamlined tender processes;
- the Department including additional conditions in the National Partnership Agreement with states/territories for all federally funded infrastructure projects, such as disaggregating (or debundling) large projects;
- the Department reviewing annual performance reports by state and territory procurement agencies that detail project delivery time to market on all federally funded infrastructure projects as a condition of federal funding;
- the Department actively reviewing tenders from foreign-owned companies to ensure that they are adequately reinvesting into the Australian economy and contributing to the growth and sustainability of local contractors by either entering into a meaningful joint venture arrangement or by other means;
- The Department's establishment of an Infrastructure Industry Consultative Forum to act as an avenue through which senior government officials and industry leaders can collaborate and progress reform and innovation on key infrastructure matters.

Recommendation 7

Allocate sufficient funding to the Department of Infrastructure, Transport, Regional Development and Communications to advance procurement reform

Timely assessment of quarry renewals and new quarry applications

Contractors need guaranteed access to raw materials such as cement and concrete so construction and infrastructure projects can continue.

However, an area of concern reported to CCF by its members is the timely assessment by state governments of quarry license renewals and new quarry applications to support the growing number of major projects in the infrastructure pipeline. As the Productivity Commission would be aware, new quarries take a number of years to go through the necessary environmental planning and approvals. This is an unsustainable timeframe given increasing demand levels. It also impacts on productivity in the industry.

CCF notes the Prime Minister's remarks on 15 June 2020 to the CEDA conference, when he said: *"Now when it comes to major projects, focusing on Commonwealth approvals won't do much to deliver projects faster if we don't address the state approval processes."*

CCF believes there needs to be greater attention paid to state approval processes relating to quarry licensing to ensure they are operating under efficient and effective approval processes.

Recommendation 8

The timely assessment of quarry licensing renewals and new quarry applications to support the growing number of major projects in the infrastructure pipeline.

Thank you for the opportunity to provide input to the Productivity Commission's review of productivity performance. Please do not hesitate to contact me if you require any further information.

Yours sincerely

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9th March 2022