

Australian Constructors Association

5 Year Productivity Inquiry submission

October 2022

The Australian Constructors Association (ACA) welcomes the opportunity to provide a final submission to the Productivity Commission on its 5 Year Productivity Inquiry. We acknowledge the interim reports and stand ready to work collaboratively to improve the productivity performance of Australia's construction industry.

About us

Established in 1994, the Australian Constructors Association (ACA) is a trusted voice for the construction industry. We are the only representative body covering the three key sectors of the industry—vertical, horizontal and services. Collectively, our members construct and service over 90 per cent of the value of major infrastructure projects built in Australia.

Australia's productivity laggard

Construction is Australia's productivity laggard. Other industries have transformed and improved their productivity performance, yet Australia's construction industry has gone backwards. Construction productivity today is lower than it was in 1990.

Over the 31 years since 1990, the 'gap' between productivity of the construction industry and that of other major industries has grown. Other industries achieved productivity growth of 31.8 per cent since 1990, while construction has seen productivity fall 1.8 per cent over the same period—a differential of 33.6 per cent.

The industry has failed to innovate and according to global consultant McKinsey¹, only hunting and fishing have a worse track record when it comes to adoption of digital technologies.

National significance

The construction industry's poor productivity performance is of national significance. This is the very industry called upon to rebuild Australia's economy following the COVID pandemic. It is vital to the health of the economy and, importantly, the quality-of-life Australians enjoy. Every dollar spent on construction has a three dollar kick on to the wider economy and the opportunity cost² is enormous. In FY 2019 alone, the opportunity cost was roughly \$35 billion³. Two years later, it grew to \$47 billion—a figure that could be far greater if the industry fails to attract the next generation of workers.

In the eyes of the next generation of workers, construction is an industry that is stuck in the past. More businesses fail in construction than any other industry and, as an industry that operates on wafer thin margins, workers are under pressure. They work long hours, suffer high stress levels and are six times more likely to die from suicide than a workplace incident.

¹ McKinsey Global Institute industry digitization index; 2015 or latest available data

² Potential foregone construction output from a 30-year period of relatively weak productivity performance encompassing civil infrastructure and mining-related construction.

³ BIS Oxford Economics, ABS data

Diversity is low and women make up only 12 per cent of the workforce. In a recent survey less than one third of Gen Z respondents said they would consider a career in the built environment⁴.

To kickstart an overhaul of the industry's culture, the Construction Industry Culture Taskforce, a collaboration between the Australian Constructors Association and the governments of NSW and Victoria, has developed a ground-breaking Culture Standard. The Culture Standard is an important step towards improving the culture of the industry but more needs to be done to create an industry of choice.

Unleashing productivity growth in construction

Productivity improvements offer the critical link to the future success of Australia's construction industry. ACA believe the biggest opportunity to improve industry productivity lies in improving how projects are procured, delivered and governed—essentially white-collar activities. Fortunately, there are many opportunities to improve white-collar productivity quickly whilst blue-collar productivity will likely take more time and, arguably, is reliant on the former.

ACA's submission to the Productivity Commission in June 2022 outlines several solutions with a focus on more efficient tender processes. The solutions range from practical activities such as those outlined in the 'Partnership for Change' initiative to bundling of projects into extended programs of work. Above all, for the industry to become more productive, the current myopic focus on lowest price at the tender box needs to shift.

The focus on lowest cost has created a race to the bottom which has led to many of the issues faced by the industry today. The prevailing concept that value for money is achieved by the lowest up-front cost is outdated and can be partially blamed for the slow adoption of productivity enhancing technologies and adversarial behaviour in the industry. It is a short-term focus that is not sustainable.

Time and cost are important components of value; however, broader value generated to the community and health of the industry throughout the build and the life of an asset should also be considered. Value should include outcomes such as improving industry sovereign capability, increasing innovation and productivity, reducing the impact on the environment, increasing diversity and inclusion in the workforce and improving industry culture.

Given the volume of construction work procured by governments, delivery agencies are uniquely placed to act as model clients. They are positioned to change the focus of the whole construction network from one focused on staying alive by offsetting risk and litigating to recover losses, to one driven to deliver improved value for all stakeholders.

Disruption over incremental change

Government, industry and unions all agree on the opportunity and, more importantly, the need for change. Incremental change and 10-year horizons are out. To keep the industry alive it must transform, and it must transform now. Everyone has a part to play, including contractors, but it is the Federal Government, if it chooses to, that has the biggest power to disrupt.

Government is the nation's largest infrastructure client. The Federal Government alone has committed a massive \$66 billion investment in infrastructure over the next four years, much of which is granted to the states, and yet it imposes few conditions on how that money is

⁴ Gleeds, HBD, Morgan Sindall - Are we Gen Z ready? Aug 2021

spent by the states. If it chose to, it could encourage the states to procure in a way that maximises productivity, reduces the impact of construction on the environment and unleashes innovation. It could incentivise the states to procure in a way that promotes training and upskilling of the workforce. It could even mandate adoption of initiatives that promote greater participation of women in the industry. The opportunities are endless.

To equip the Federal Government for the role of disrupter, ACA has developed the Future Australian Infrastructure Rating (FAIR). Essentially, FAIR is a mechanism to rate government funded projects on how well they performed against key reform areas such as improved productivity and increased female participation. Federally funded projects undertaken by state government delivery agencies would be given a rating that would be published, leading them to strive for increasingly better outcomes for their stakeholders. The FAIR initiative, or components of it, could be included in the next iteration of the National Partnership Agreement as a requirement for all federally funded projects.

Act now

The industry needs to collaborate like never before. If it does, construction could be an industry where both projects and workers are free and able to productively work the hours that best suit them. Construction could be an industry of choice and equal opportunity for all genders, nationalities and ages. It could be an industry that constructs resilient infrastructure without damaging the environment. It could be an industry at the forefront of technological advancement. Construction could be a profitable industry that rewards collaboration over conflict and innovation over status quo and an industry prepared to take risks on new ideas rather than unknown ground conditions.

Australia's construction industry could be the envy of the world, delivering high value infrastructure at a greatly reduced cost, for the benefit of all Australians. The time to act is now.

Contact

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