



WE SPEAK FOR
AIR CONDITIONING

AMCA SUBMISSION TO PRODUCTIVITY COMMISSION PUBLIC INFRASTRUCTURE DRAFT REPORT

INTRODUCTION

The Airconditioning and Mechanical Contractors' Association (AMCA) welcomes the opportunity to comment on the draft Productivity Commission Report on Public Infrastructure.

The AMCA is a nation-wide trade association serving companies that operate in the commercial/industrial sector of the construction industry. It is the only industry and employer association that is exclusively dedicated to the airconditioning and mechanical services industry.

AMCA acts as the industry's voice in dealing with governments and other construction and service industry groups and the unions.

Since its inception in 1961, AMCA's objectives have been to promote and protect the interests and welfare of the airconditioning and mechanical services industry, its members, and the public they serve.

Our members design, install and provide ongoing service of airconditioning and mechanical ventilation systems, they have:

- Years of experience in the industry.
- A proven record of achievement in the installation, service and maintenance of commercial and industrial plant.
- Worked on the most construction complex projects in Australia.

The airconditioning and mechanical services industry is diverse, complex and at the cutting edge of environmental and energy efficiency issues. Collectively our members are responsible for:

- \$1.2B in value of new plant installed annually.
- \$500M in equipment service and maintenance work.

- The employment of some 8,000 people.

AMCA believes that the Commonwealth government as a client has both the opportunity and responsibility to use its purchasing power to effect improvements in construction industry productivity.

From the brief profile of the Association it is clear that our primary interest is in the commercial construction sector or as the report puts it – social infrastructure. Accordingly our comments that follow are biased in that direction. It is our strong opinion that notwithstanding this orientation the comments we make should be taken into account because many of the recommendations which will come out in the final report will be influential in future policy discussions about productivity and the factors which influence it in the commercial construction sector.

INDUSTRIAL RELATIONS

AMCA members are the largest employers of plumbing trade labour and the largest employers of on-site labour outside of the labourer category.

Therefore industrial relations and how it is practised is an important factor in the productivity and profitability debate. The Association does agree that industrial relations alone do not hold the key to improved productivity. It is important but not the only factor.

Looking at the industrial relations aspect of the industry there are a number of important factors which need to be recognised.

- It is of no great consolation that working days lost have fallen in recent years. This is positive but the number and intensity of industrial disputes remain at the high end of all industries.
- The negative impact of unions and union officials on construction sites cannot be measured by working days lost alone. All too often union officials are afforded free and unfettered access to construction sites by head contractors in a way that is foreign in any other industry or in our industry in any other country.

It is very difficult for a project manager to stand up to a large threatening union official who is placing some demand on the contractor in an aggressive and abusive manner.

- For the past decade enterprise agreements have provided annual wage increases well above the rate of inflation. Construction workers have received wage increases in excess of all industries with the exception of mining. The aggregate ABS figures understate the wage and labour cost growth in commercial construction because they take into account the lower wage rates which exist in the domestic or residential sector. It needs to be noted the domestic/residential sector is a more productive sector as revealed in several studies that were commissioned by Master Builders Australia when it was

assessing the impact of the Australian Building Construction Commission (ABCC) on industry productivity.

- Other employment benefits are well ahead of the general industry.
 - Cumulative redundancy fund benefits.
 - 26 rostered days off per year.
 - Generous site allowances.
- Trade union membership is falling in the general workforce but it has not fallen on the major construction projects or on key infrastructure projects. In these areas the closed shop remains in place.

The only people who doubt that the ABCC has contributed to productivity improvements in the construction industry is the union movement. Universally, employers, industry associations and government regulators all attest to the fact the behaviour of union officials on site was on the improve while the ABCC was in place. In the period since the powers of the organisation were weakened the level of unacceptable behaviour has increased.

For these reasons AMCA supports the reinstatement of the ABCC with all of its former powers. In the event this happens we submit there will be a positive improvement in industry productivity.

SAFETY

The draft report notes a review is in place of the Office of the Federal Safety Commissioner. This review is timely. The work of the OFSC and the accreditation system it operates has contributed to improved safety performance. However, other factors are at play also.

The accreditation system applies to head contractors only. It is acknowledged that under the system of construction it is the head contractor who manages the contract and the project, but in reality more than 80% of the work is carried out by specialist subcontractors. Many specialist subcontractors therefore employ more people than the "builder" and have OHS systems that are superior to those operated by some head contractors. Where a head contractor requires a specialist sub-contractor to modify its superior system this can result in increased cost to the specialist subcontractor, confusion between systems, and disharmony on-site. All up, this leads to increased cost and reduced productivity for the project and the specialist subcontractor. It is incongruous to us that our members are forced to operate to an inferior standard as well as to comply with the requirements of their own accredited system.

The position referred to in the preceding paragraph is even more untenable in circumstances which I outline. There are occasions where our members are the head contractor on a project. For several of those who fit into this category they have pursued and achieved accreditation in accordance with the OFSC requirements. The ridiculous situation has then arisen when on another project where they are a specialist subcontractor they have been required to modify their

OFSC accredited safety system to comply with the accredited one operated by the head contractor on that project. This is patently stupid and cannot be justified.

The Federal Safety Commissioner needs to work with the industry to harmonise OHS systems and to find ways to reduce the cost burden on specialist subcontractors while at the same time not diminishing workplace health and safety standards.

Improved safety on site will have productivity benefits

SKILLS

The work which AMCA members undertake requires they employ people who are in the occupations of: --

- Refrigeration mechanic.
- Plumber
- Sheet metal worker.
- Engineer

amongst other administrators.

The largest numbers are to be found in the occupations of refrigeration mechanic and plumber. The traditional apprenticeship system is used to train and develop the skills of people in these trades.

In the course of the past 20 years the apprenticeship system has been subject to significant change in content and administration. In this time apprentice employment numbers have fallen. Since mid-2013 the number of apprenticeship commencements has fallen sharply.

The long-term downward trend in apprenticeship employment is a matter of concern. The cost of employing apprentices has risen in the period and this will be one of the factors contributing to the decline. Wage rates are not the only cost factor. Others include the number of rostered days off they enjoy and the high level on-site allowances which are paid on commercial construction sites. The conditions under which apprentices are trained in Australia are in marked contrast to the way the training is delivered in the United States. In the United States for example, apprentices --

- Undertake a five-year apprenticeship training period.
- All of the off the job schooling is delivered at night in the apprentices' own time.

The administrative changes made in recent years have been significant along with changes in terminology. These factors in our view have contributed to the decline in apprenticeship employment. In short, many employers of traditional apprenticeships simply do not understand the system any longer and therefore have walked away from it.

Australia is entering into the years when the "baby boom" generation will leave the workforce. In this time the economy will lose a great productive resource in terms of skills and intellectual property. Unless the training system can be flexible and find innovative and credible ways with the support of industry to develop the skills needed, the productive capacity of the industry will suffer.

Training funds that derive their income from levies on employers exist under the terms of many enterprise bargaining agreements. Some of the mechanisms which were set up using employer contributions have on occasions provided valuable training. However a value for money outcome has not been achieved on all occasions. The governance structures in place are less than best practice which leads to a heavy impost on employers for sub optimal skill outcomes.

While safety training is important as we noted in another part of the submission, our view is that the industry training structures which are funded through these employer levy arrangements are biased towards safety training. This is done at the expense of genuine skills development in emerging technology.

BUILDING INFORMATION MODELLING

The draft report refers to the current work which is being undertaken by a range of industry parties to support a proactive wide spread adoption of BIM into the procurement system.

AMCA has been at the forefront of BIM development. Some of our members have been early adopters and through their projects fully understand the contribution BIM can make towards improving industry productivity.

The benefits of BIM are there for all to see. The Australian construction industry to a very large extent has been closed to international competitive forces. BIM is a game changer in this respect. BIM will enable off-site and /or off-shore manufacture of products and systems for installation in buildings like never before.

Therefore AMCA submits that the final report should strengthen its support for the adoption of BIM as a productivity enabler.

Two other important points about BIM should be noted.

First, there continues to be a misconception by many in the industry that BIM is a software issue only. Clearly it is not. Software enables BIM but the full benefit will come from the way the software is used to deliver the project in an integrated manner.

Second, to a very large extent the community and industry discussion about BIM is in connection with procurement. Clearly there are productivity gains and construction cost savings there. However this is only part of the story. Over the life-cycle of the building the ongoing use of the as built BIM data can contribute significantly to reducing maintenance costs and any other construction costs which are connected with refurbishment, renovation or modifications of the structure.

CONTRACT CONDITIONS

Contracts are important in the construction industry. They are important because they set the tone and context in which the work will be undertaken. Depending on how they are worded and administered they can make the relationship adversarial or cooperative.

As noted elsewhere in this submission BIM is an important development for the further productivity of the industry. BIM requires a new approach to the relationship between the parties to the project. At this point in time the industry is attempting to resolve this relationship issue and the contract arrangements which are needed to support it.

Contract disputes cost the industry and ultimately the client excessive amounts of money each year. The root causes of these disputes most often stem from unreasonable schedules, poor documentation, inappropriate risk allocation and thin margins.

The question arises then what are the appropriate strategies to address these issues?

First and foremost is the need for the parties to allocate risks on the project effectively to the party who is best able to control them. The answer is not to simply pass the risk from the principal or head contractor on to the specialist subcontractors.

Before a project commences an appropriate dispute avoidance and resolution procedure needs to be put into place. Problems and issues which invariably arise must be resolved early while they are small and before they move on to become major ones. There are many innovative dispute resolution arrangements in place in various parts of the world and their adoption here should be considered seriously.

Clients have a responsibility to properly scope and document the works they want carried out. Poor and incomplete documentation leads to many of the disputes which occur. A study completed by the CSIRO a decade ago concluded that poor documentation can contribute to costs being more than 11% above what they ought to be. Industry operatives say that the quality of documentation has deteriorated further in recent years.

Use of non-standard contracts puts many specialist subcontractors at a distinct disadvantage. In excess of 80% of all construction work is carried out by specialist subcontractors. Too often these small to medium-sized businesses do not have the time or the skill to comprehend fully some of the contract conditions they are required to accept. The use of standard contracts would make a major contribution to resolving this issue.

AMCA submits the public sector agencies should be required to follow the requirements of Australian Standard AS 4120 -- 1994 Code of Tendering when engaging in the procurement process.

International information and the findings of our own industry surveys show that slow payment and low margins plague the industry. Security of payment laws are in place now in every state and the ACT. Some have been reviewed after a period of operation. Others remain in their original condition. These laws have made a marginal contribution to resolving the slow payment problem but certainly have not solved the problem. AMCA submits that a national review be conducted with the objective of establishing a national Security of Payment Act which has some real “teeth” to bring about changed behaviour.