

# Construction Industry Scorecard

December 2021



**AUSTRALIAN  
CONSTRUCTORS  
ASSOCIATION**



## About this report

This report builds on the *Australian Constructors Association response to Infrastructure NSW scorecard* report published in 2020. The scorecard was developed to assess the NSW government's progress in meeting its 10 commitments to the construction sector as outlined in the 2018 *NSW Government Action Plan*.

In developing the second edition of the scorecard, the Australian Constructors Association commissioned BIS Oxford Economics to analyse progress by surveying members working on projects that had commenced after the 10 Point Commitment.

A total of 26 projects were surveyed; 20 projects were from New South Wales (NSW) and the remaining 6 from Victoria. Roads and bridges were the dominant project sector followed by health, railways and stations and other transport. The majority of projects were valued between \$201 million to \$500 million. By procurement method, 12 projects were delivered via collaborative models and 13 traditional with one public private partnership included.

The intent of this report is to assess the progress of reform against the 2020 benchmark survey, and to identify where the sector's overall performance can be improved to create a sustainable construction industry for the benefit of all Australians.

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## Introduction

The construction industry has been tasked with rebuilding Australia's economy on the basis that every dollar spent on infrastructure has a \$3 kick on to the wider economy. Not surprisingly, Australia's project pipeline is booming. Within the next three years, major public infrastructure activity is expected to double, peaking at \$52 billion in 2023<sup>1</sup>.

Construction matters more than ever but the industry is not in good shape. It accounts for almost 25 per cent of all business insolvencies in Australia, and productivity growth over the last 30 years lags other major industries by 25 per cent. Women make up only 12 per cent of the construction workforce who are 6 times more likely to die from suicide than a workplace incident.

In addition, Infrastructure Australia's *2021 Market Capacity Report* has confirmed the significant capability and capacity challenges the sector will face in delivering the record pipeline of projects.

Improvements to the way government procures and delivers infrastructure are desperately needed to address the industry's challenges. The commitments articulated by the NSW Government are therefore more critical than ever before. These commitments support best practice and have broad application across all jurisdictions.

This scorecard reports on the performance of projects across NSW and Victoria. While based on the NSW Government's commitments, the Victorian Government is aligned and is actively working with the NSW Government and the Australian Constructors Association to improve procurement and delivery processes through the Construction Industry Leadership Forum.

Committed to being a model client, government expects industry to also meet the highest standards. Having released our own 10 commitments to the construction industry (*Commitment to our clients and the construction industry* published in 2020), this report also details our progress in creating a more sustainable construction industry.

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<sup>1</sup> Infrastructure Australia (2021) Infrastructure Market Capacity Report, October 2021. Accessed at: <https://www.infrastructureaustralia.gov.au/sites/default/files/2021-10/Infrastructure%20Market%20Capacity%20Report%20%281%29.pdf>



# Government scorecard

## Key findings

Government has made good progress over the past year. The findings of the independent research show 9 of the 10 commitments have improved. Industry diversity was the only commitment to experience a minor decline in overall expectations being met.

The greatest improvements have been recorded against commitments to:

- standardise contracts and procurement methods
- establish consistent government policy
- develop and promote a transparent pipeline of projects.

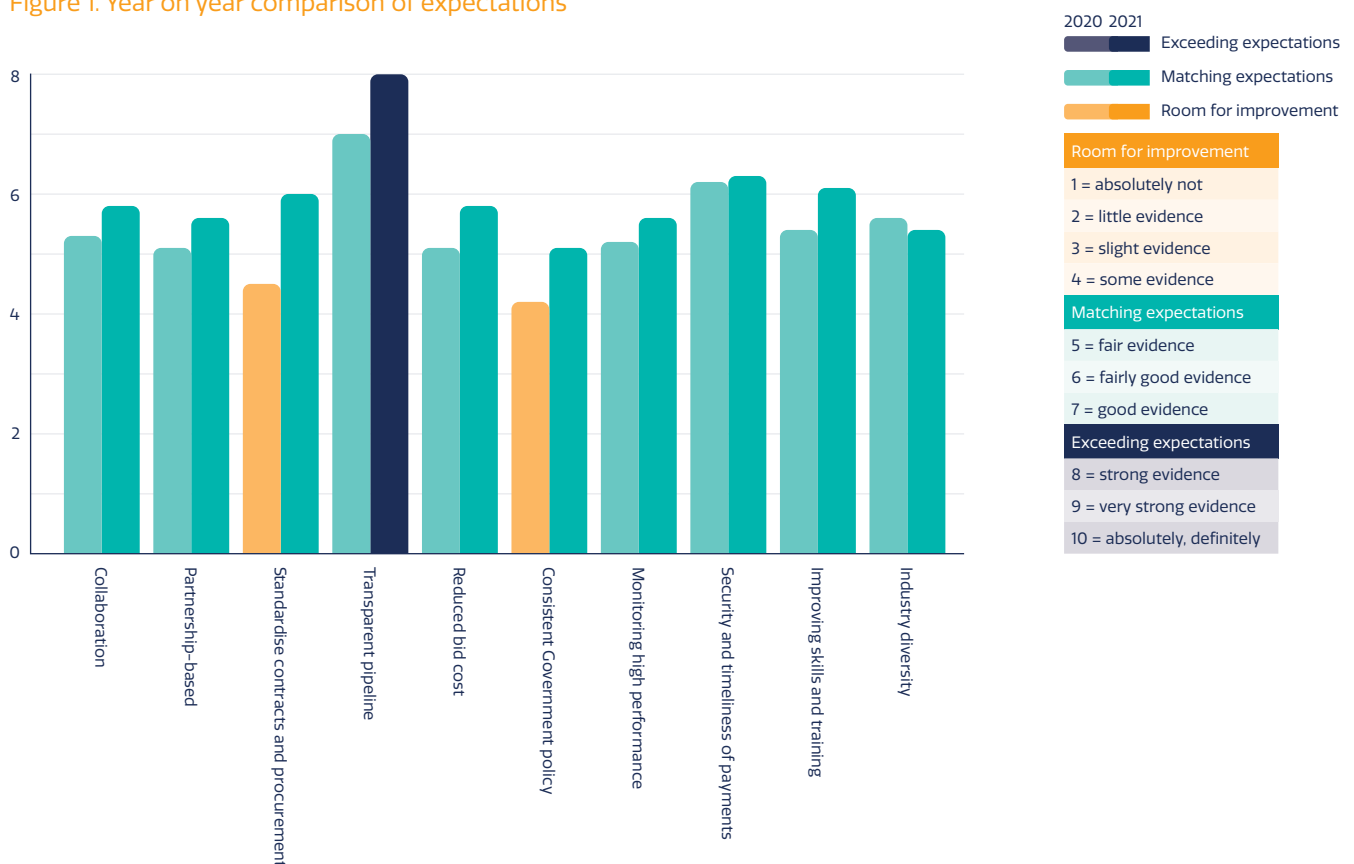
In fact, the transparency of the pipeline is now exceeding expectations.

While government is to be commended for its efforts, there is still more to be done to improve the settings for project delivery. In total, 90 per cent of the commitments fall into the moderate 'matching expectations' range and, despite gains, consistent government policy continues to lag other commitments (Refer to Figure 1 – Year on year comparison of expectations).

## NSW Government 10 Point Commitment

- 1 Procure and manage projects in a more collaborative way
- 2 Adopt partnership-based approaches to risk allocation
- 3 Standardise contracts and procurement methods
- 4 Develop and promote a transparent pipeline of projects
- 5 Reduce the cost of bidding
- 6 Establish a consistent NSW Government policy on bid cost contributions
- 7 Monitor and reward high performance
- 8 Improve the security and timeliness of contract payments
- 9 Improve skills and training
- 10 Increase industry diversity

Figure 1. Year on year comparison of expectations



## Positive outcomes

Government is to be commended for its transparency of the project pipeline and approach to market engagement. Face-to-face interactive briefings with industry have been well received and helped to elicit industry feedback on the market's capacity to deliver the forward pipeline, along with options for packaging and phasing of individual projects. The model used by Major Road Projects Victoria which is based on delivering a package of projects across panel contractors is a positive example of government providing good visibility of upcoming projects. Similarly, findings indicate NSW Health provides an excellent transparent pipeline process.

Government's most significant strides were in its attempts to standardise contracts and procurement methods. The use of standardised contracts and procurement methods will reduce costs to government and industry, and improve productivity by allowing industry to make better use of its limited resources. Other measures to improve productivity in the tender phase include reduced bidder lists and faster shortlisting processes.

## Areas for improvement

While there is always room for improvement, the greatest gains will be made by increasing the pace of change. To meet the significant challenges of delivering the upcoming pipeline of projects, government needs to rapidly accelerate its efforts to improve procurement and delivery processes.

As a starting point, immediate action must be taken to reverse the decline in industry diversity. The construction industry is missing out on employing approximately half the working population—women. It is critical we address the challenges that are preventing the industry from being an employer of choice. The development of a culture standard through the work of the Construction Industry Culture Taskforce is anticipated to have a significant positive impact on the culture of the industry, including its attractiveness to women. The challenge will be for government to quickly adopt the standard through its buying practices.

More collaboration is needed. Surprisingly, collaborative contracts applied to less than half of the projects surveyed. The findings demonstrate better outcomes are achieved through more collaborative models. A shift from procurement methods that unfairly allocate risks to contractors to more open collaborative contracting models will help address many of the issues and improve innovation and productivity.

For NSW, making up the majority of the surveyed projects, further improvements are needed to reduce and establish consistent government policy on bid costs, reward high performance and ensure the security and timeliness of payments.

## Industry productivity challenges

Productivity growth in the construction industry over the last 30 years has trailed other significant industries by 25 per cent.

If we could just halve the gap in productivity growth between the construction industry and other industries, we could construct an extra \$15 billion of infrastructure every year for the same level of expenditure and employ an extra 15,000 people. That is equivalent of constructing three extra Western Sydney Airports every year. This saving will be vital in a post COVID world with high levels of government debt but no less of a requirement for infrastructure. Importantly, it will also help address the looming capacity shortfall.

Improvements in productivity must be an immediate focus for industry and government. Wasted effort can be readily identified, such as lengthy bid processes involving multiple bidder teams, multiple layers of design review requirements and contractors being required to undertake their own site investigations despite government including these in tender documents. Productivity issues can also be addressed by improving the culture and diversity of the industry and increasing innovation and use of digital tools. Collaborative forms of procurement and better risk allocation are an important part of the solution.



# Industry scorecard

The Australian Constructors Association has identified that there are three key pillars that support the industry: improved industry culture; sufficient capability, capacity and skills; and equitable and aligned commercial frameworks. The challenge with strengthening these pillars is that they are all interlinked. Improvement in one requires improvement in all.

Committed to working with government and industry to set the industry on a more sustainable path, in 2020 the Australian Constructors Association published 10 commitments where our members can drive positive change. These commitments expand on the three industry pillars (Refer to Figure 2 – Ten industry commitments).

Figure 2. Ten industry commitments



## Improved industry culture



Improving gender diversity will have a profound positive impact on the industry's culture. That is why the Australian Constructors Association has implemented a policy where each member company is to have two co-directors—one male and one female—on our Board. Co-directors are regarded as equal and empowered to represent the entity as the CEO for the purposes of the association and to attend meetings separately on behalf of the company. Since implementing the policy, the appetite for discussion and the breadth of issues discussed within the Australian Constructors Association has increased and we are now seeing more considered and overall better decisions being taken.

Looking beyond our own doors and expanding on Construction Industry Leadership Forum, the Australian Constructors Association partners with the governments of NSW and Victoria in the Construction Industry Culture Taskforce.

The Construction Industry Culture Taskforce is developing a new industry Culture Standard, which is a framework for clients and contractors to work together to improve the culture in our industry. The Culture Standard aims to change the lives of construction workers by ensuring:

- workers are provided adequate time to rest and pursue life activities outside of work
- the occupational health and mental wellbeing of construction workers is prioritised
- the industry can attract and retain more and a more diverse range of workers.

In a major step forward for the industry, in October 2021 the draft Culture Standard was released for public consultation. Once finalised, governments will be called upon to incorporate the Culture Standard into their standard procurement requirements to ensure we have the right skills in our industry and to address cultural issues.

Amongst other things, the Culture Standard calls for the implementation of wellbeing programs. In support of this, the Australian Constructors Association has been involved in the development of the ground-breaking Wellness in Infrastructure initiative. Wellness in Infrastructure aims to identify and deliver initiatives to improve the mental health outcomes tangibly and sustainably for employees within the industry.

Construction of infrastructure can have significant positive and negative impacts on communities. We recognise our role to minimise the negatives, maximise the positives and build a social licence to operate. Similarly, we recognise that climate change is a growing concern and there is much that can be done to reduce our footprint on the environment. The Australian Constructors Association has partnered with various industry associations, including the Infrastructure Sustainability Council and Consult Australia, to develop thought leadership to inform our journey and help the industry transition to net zero in infrastructure.



## Sufficient capability, capacity and skills

5. Encourage innovation and improve productivity

6. Build capacity, capability and skills

7. Strive for improved industrial relations

Attracting and developing a diverse workforce is a key objective for government and the private sector to successfully deliver the infrastructure pipeline and create a more sustainable industry.

Recognising the need for a joint solution, the Australian Constructors Association partners with the NSW and Victorian Governments in the Construction Industry Leadership Forum. Through this forum, government and industry are working together to set a common agenda for change, share knowledge and set a program of activities to address issues such as capability and capacity constraints.

The Australian Constructors Association also partnered with Engineers Australia to deliver an initiative aimed at raising the standard of engineers in the construction industry. This initiative has produced a Construction Engineer Learning and Development Guide and a Chartered Area of Practice specifically aimed at engineers in the construction industry.

## Equitable and aligned commercial frameworks

8. Collaborate with all stakeholders to ensure risk pricing is open, transparent and appropriate

9. Improve outcomes for all project stakeholders

10. Maximise the social and economic benefits of construction

The construction industry largely operates in an environment where a focus on lowest cost at the tender box is stifling investment in new technology and holding the industry back from realising major productivity improvements. Increasingly, governments are realising the need to shift their mindset and start buying infrastructure based on best value.

Amongst other things, a focus on value for money could result in additional local content, reduced environmental impact, increased use of social and indigenous enterprise, increased innovation and improved productivity as well as reduced life cycle costs and increased industry diversity.

Through the Construction Industry Leadership Forum government and industry are working together to improve the effectiveness and value of the procurement and delivery of government infrastructure programs, including resolving commercial and contractual issues.

An example of this forum achieving positive outcomes is the successful joint trial with Sydney Metro to improve the allocation and pricing of risk during the tender for a major package of work. This process is now being used for other packages on the Sydney Metro project and by other delivery agencies.





## Outlook

State-based reform is good news for the industry but to have real impact construction needs even more collaboration and even less conflict.

While there is no single solution, a starting point is for more states and territories to get involved, potentially with the Construction Industry Leadership Forum and Construction Industry Culture Taskforce, and for the Federal Government to lead nationwide reforms aimed at improving the way governments procure and deliver projects.

Consistent with recommendations in the Australian Infrastructure Plan, the creation of a Federally led government and industry collaborative leadership group is needed and it is needed now. As a direct procurer of major projects and as a significant source of funding for jurisdictionally led projects, the Federal Government is best placed to lead the charge to address the immediate productivity challenges.

A collaborative approach between Federal and State governments and industry would result in a more coherent implementation of reforms through sharing and adoption of best practice.



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