

Submission for **Federal Budget 2022–23**

28 January 2022



AUSTRALIAN
CONSTRUCTORS
ASSOCIATION

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About the Australian Constructors Association

The Australian Constructors Association (ACA) represents leading construction and infrastructure contracting companies. We are dedicated to promoting a sustainable construction industry for Australia.


Established in 1994, the ACA represents the views of industry leaders across the commercial building, infrastructure and construction services sectors in Australia. We believe a sustainable construction sector is built on the three key pillars of equitable and aligned commercial frameworks, a positive industry culture and sufficient capability, capacity and skills to execute the projects the industry is called upon to deliver.



Executive summary

The ACA has one proposal for inclusion in the 2022-23 Budget. Our proposal requires a modest investment that could generate significant long term financial savings and greatly improved project outcomes

The ACA calls for the Australian Government to support the creation of a national rating scheme to improve project outcomes in the construction sector. Aligning with the 2021 Australian Infrastructure Plan, the scheme will fast track much needed improvements across the industry by incentivising innovation and sharing best practice.

 The COVID-19 pandemic has presented a once-in-a-lifetime opportunity to reform how infrastructure projects are procured and delivered.

There has never been a better time to implement such a scheme. The COVID-19 pandemic has presented a once-in-a-lifetime opportunity to reform how infrastructure projects are procured and delivered. The Australian Government has committed a record \$110 billion investment for infrastructure projects across the nation over 10 years to rebuild the

economy and drive growth. However, the industry is experiencing capability and capacity shortages, and improvements are required to better utilise available local resources including upskilling existing workers and attracting and retaining a more diverse workforce.

Both the construction industry and its clients have many ideas and proposals to improve project outcomes. However, opportunities to realise reforms are limited under traditional procurement and contracting frameworks where the focus tends to favour lowest initial price. Additionally, the many rigid specifications stifle innovation and use of digital technologies.

The ACA calls for the allocation of modest expenditure in the 2022-23 Federal Budget to establish a rating scheme for infrastructure projects. This scheme would utilise existing frameworks and agencies utilising existing frameworks and agencies, to achieve long-term sustainable outcomes (in the broadest sense) for the construction industry.

The focus of this scheme is improved productivity, which in turn will deliver positive cultural, social and environmental outcomes.



Need for reform

The construction industry is not sustainable in its current form. Sectors within the industry have some of the highest rates of insolvencies in Australia, and productivity growth over the last 30 years trails that of other significant industries by 25%.

In parts of the industry, women make up only 12% of the workforce—far less for frontline workers, and construction industry workers are 6 times more likely to die from suicide than a workplace incident. If not addressed, these challenges could threaten the delivery of the upcoming record pipeline of projects.

Funding arrangements for infrastructure projects in Australia often drive a ‘lowest upfront cost at the tender box’ approach to procurement. This hinders the development of innovative solutions especially when coupled with prescriptive specifications and traditional approaches to risk allocation.

These challenges could threaten the delivery of the upcoming record pipeline of projects.

Infrastructure Australia has produced well-researched and considered plans for industry reform that have not been implemented. While the States and Territories individually have infrastructure strategies and are progressing various reforms, these approaches are inconsistent.

Individual contractors, consultants, subcontractors, suppliers and clients are progressing innovative solutions where there is opportunity. However, these are generally not shared amongst delivery agencies around the country, resulting in a loss of opportunity for further development of innovative solutions and sector-wide productivity gains.

We are instead seeing an industry competing for scarce resources in a race to the bottom, rather than coming together to develop more productive methods of working, growing the pool of local skilled workers and improving sovereign capability.

To deliver the record pipeline of infrastructure projects, the industry must innovate to find ways to do more with less. There are limited resources, even once international borders open, and closing the productivity gap is essential. If we could just halve the gap in productivity growth between construction and other major industries, there would be an additional \$15 billion a year for government to invest in additional infrastructure. This is a huge opportunity for the sector but we must act now to accelerate and concentrate reforms.



Productivity



Financial outcomes



Boom/bust investment cycle



Mental health



Mega projects



Digital innovation




Diversity

Federal Government coordination

The Australian Government provides funding for delivery of many public infrastructure projects. Through this funding, it is well positioned to coordinate and drive improved infrastructure project outcomes.

The Federal Government is well placed to drive adoption of digital technology, innovation, skills development, improve diversity and wellbeing for workers, and emissions reductions. These outcomes align with the recommendations outlined in the 2021 Australian Infrastructure Plan.

We have seen the success that can be achieved by driving outcomes through ratings schemes such as NABERS, Green Star and the IS Rating Schemes. Existing frameworks and agencies can be utilised to achieve long-term benefits for not just the sector but the entire Australian economy and population.

 It is possible to achieve the step change required by introducing a rating scheme for improved productivity on infrastructure projects on a national scale.

ACA believes a simplified national rating scheme can be applied to federally funded infrastructure projects, to promote productivity improvements. Such a scheme would enable the construction industry to successfully achieve reforms in a consistent way, bringing the industry together with delivery agencies to achieve the best rating possible for each project and therefore deliver improved outcomes than those currently being realised. It is not proposed

to condition funding to achievement of a particular rating, but to incentivise industry and delivery agencies to achieve better outcomes.

While some desired outcomes for the construction industry may seem too complex to assess and rate, we believe the proposed scheme is feasible, having regard to outcomes assessed under existing schemes.

Green Star for example has incorporated ‘crosswalks’ for projects seeking certification under multiple schemes. Existing schemes such as NABERS/Green Star/IS scheme, the Culture Standard, and State-based industry skills policies are in place and align with the improved project outcomes sought by this proposal.

The frameworks are in place to align rating schemes for infrastructure projects to achieve national consistency of outcomes, and the timing is ideal to develop a complimentary scheme as set out in this submission.

It is possible to achieve the step change required by introducing a rating scheme for improved productivity on infrastructure projects on a national scale. By sharing best practices, focusing efforts on key desired outcomes and applying consistent drivers, a multiplying impact can be achieved to greatly improve the productivity and capability of Australia’s construction industry.

ACA has consulted extensively on this proposal with government and industry bodies and received widespread in-principle support.

The FAIR scheme

At a glance

ACA's proposed Future Australia Infrastructure Rating (FAIR) scheme proposes to score federally funded projects against key result areas to drive major productivity improvements across the industry.

Implementation of the FAIR scheme would utilise a combination of existing industry rating frameworks and bodies, government and industry forums.



ESTABLISH KEY RESULT AREAS

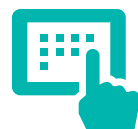
Establish a set of 'key result areas' targeting productivity reform outcomes in alignment with the 2021 Australian Infrastructure Plan.



Broad consultation with government and industry bodies to date indicates general agreement as to the areas of reform required to improve project outcomes. These align with the **2021 Australian Infrastructure Plan**.



INNOVATION



USE OF DIGITAL TOOLS



CULTURE



CAPABILITY & CAPACITY



ENVIRONMENT

A range of metrics can be produced within each result area via the adoption and modification of existing assessment frameworks

FAIR SCHEME BENEFITS

- ✓ A FAIR score would provide a suitable mechanism by which the performance of federally funded projects could be assessed against the agreed key result areas
- ✓ FAIR scores could be included in post completion reports to Infrastructure Australia (under the National Partnership Agreement)
- ✓ Procurement methods and value for money assessments will be selected to best drive the FAIR outcomes sought
- ✓ Contractors and consultants will be attracted to projects that provide the best opportunity of a higher FAIR score
- ✓ Industry and delivery agencies would be encouraged to strive for the highest scores
- ✓ Potential of linked incentivisation (e.g. ability to apply for additional funding upon achievement of a certain score)
- ✓ Inclusion of an 'opt in' function (allowing delivery agencies to providing a FAIR score for non-federally funded projects)
- ✓ FAIR scores would be publicly available. The development of an online database of learnings and innovations and a national forum to share best practice will allow industry and clients to identify ways to improve results on future projects.

NEXT STEPS: 2022-23

The proposed focus for the 2022-23 financial year includes the following:

- Mapping existing schemes and frameworks
- Producing a gap analysis
- Creation of Key Result Area recommendations
- Commencement of pilot projects
- Incorporation of a FAIR scheme in the next National Partnership Agreement



Implementation of the FAIR scheme



Key result areas

A set of 'key result areas' would need to be established, targeting productivity reform outcomes in alignment with the 2021 Australian Infrastructure Plan.

For example:

- » Innovation /modern methods of construction
- » capability and capacity / sovereign capability (e.g. upskilling local workforce, apprentices/trainees/cadets, consistency of existing State-based policies)
- » use of digital tools
- » culture (e.g. increased participation of women, worker wellbeing initiatives - this could be achieved by implementation of the Culture Standard)
- » environment/sustainability (e.g. achievement of rating levels via IS/ Green Star rating schemes).

Federally funded projects

It is proposed all federally funded projects would ultimately be required to produce a FAIR score, being an assessment of a project's performance against the agreed key result areas. The FAIR score outcome could have a linked incentivisation, such as a certain score providing an ability to apply for additional funding from an allocated fund (a FAIR fund). Delivery agencies could also 'opt in' to providing a FAIR score for projects without a federal funding contribution.


It is not proposed that 'business as usual' funding be at risk depending on a FAIR score.

There is already provision for state and territory delivery agencies to submit post completion reports to Infrastructure Australia under the National Partnership Agreement. In 2023, when it is assumed the National Partnership Agreement renegotiations will commence, it is proposed consideration be given to requiring post completion reports include a FAIR score against the key result areas.

Driving improved outcomes

FAIR scores would be publicly available, and industry and delivery agencies alike would accordingly strive for the best possible score for their project.

Broad consultation with government and industry bodies to date indicates general agreement as to the areas of reform required to improve project outcomes, and these align with the 2021 Australian Infrastructure Plan.

 Contractors and consultants are likely to want to tender for projects with the best opportunity of a higher FAIR score for their own reputational benefit.

If projects are required to produce FAIR scores, and ideally have a FAIR commitment in place at time of business case proposal, this will influence procurement methods and value for money assessments. It is feasible to adopt and modify existing assessment frameworks to produce a range of metrics within each key result area that can be selected for individual projects to drive outcomes in a consistent manner.

Contractors and consultants are likely to want to tender for projects with the best opportunity of a higher FAIR score for their own reputational benefit.

Shared learnings and best practices

Crucially, an online database of learnings and innovations from projects would be established where industry and clients (public and private) alike can

identify ways to improve key result areas on upcoming projects. This could also be developed as part of the national post completion review framework. Shared learnings will contribute to increased productivity nationwide.

Coordinated effort

We believe a coordinated effort between the Australian and state and territory governments and industry is required to achieve the reforms and outcomes sought.

The NABERS scheme is a good example of a national rating system coordinated by a nominated agency on behalf of the Australian, state and territory governments, working together with industry to achieve desired outcomes.

The FAIR scheme could be implemented by using existing industry rating scheme frameworks and bodies, or a government/industry forum, or a combination of these.

Initial activities

For financial year 2022-23, it is proposed the focus be on establishing a scheme, with activities to include mapping existing schemes and frameworks, producing a gap analysis, Key Result Area recommendations and commencing pilot projects.

Ideally, in the next iteration of the National Partnership Agreement, it would be a requirement for projects to produce a FAIR score. A FAIR commitment could also be made at project inception with the aim of driving higher scores. As set out above, it is suggested that higher scores could unlock the ability to apply to a FAIR fund for delivery agencies achieving certain outcomes. On contract award, a preliminary FAIR rating could be established.

ACA request for the 2022-23 Federal Budget

The funding required to introduce a federal rating scheme for infrastructure (FAIR scheme) is modest in our view compared to the potential benefits. Following discussions with various agencies including ratings bodies, it is estimated an annual budget of no more than \$5 million to resource the coordination and implementation of the FAIR scheme would be appropriate.

It is considered the funding required to establish and maintain the scheme would be offset by productivity savings and flow-on benefits to the industry and the wider economy from the outcomes achieved. In other words, the cost of the FAIR scheme is the cost of producing public infrastructure in a sustainable manner.

THE ACA CALLS FOR THE 2022-23 FEDERAL BUDGET TO PROVIDE FOR THE ESTABLISHMENT OF THE FAIR SCHEME INCLUDING:



Mapping existing schemes and frameworks and producing a gap analysis



Formation of the key result areas and metrics



Establishment of the 'learnings library' and resourcing to maintain its currency



Development of training modules to ensure government and industry alike understand the framework and apply it consistently



Resourcing for an entity (which may be an existing body) to produce assessments and FAIR scores



Resourcing for an existing agency or body to perform the administrative functions required to facilitate and implement the framework



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