

# Future Australian Infrastructure Rating

A FAIR idea for the Jobs and Skills Summit

# FAIR



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# ABOUT THIS PAPER

The Australian Constructors Association (ACA) is honoured to represent the construction industry at the Jobs and Skills Summit hosted by Australian Government in September 2022. We approach this Summit with great enthusiasm and a genuine desire to address the nation's challenges together.

In preparation for the Summit, the Government has called for attendees and industry stakeholders to bring forward ideas for discussion. This paper does just that. Our idea represents an opportunity to unlock major productivity gains in the construction sector to not only strengthen Australia's economy but in the process, help create a more sustainable construction industry.

If implemented, it would also drive improved outcomes across all the Summit's themes including:

- maintaining full employment and growing productivity
- boosting job security and wages

- lifting participation and reducing barriers to employment
- delivering a high-quality labour force through skills, training and migration
- maximising opportunities in the industries of the future.

Each of these areas are relevant to Australia's construction industry and can be readily addressed through the implementation of our proposal for a rating tool to assess performance of infrastructure projects—the Future Australian Infrastructure Rating (FAIR).

# FAIR



# WHY CONSTRUCTION

The construction industry presents one of the greatest opportunities to improve Australia's overall productivity performance. It is one of Australia's largest industries, contributing 8 per cent to GDP, but also one of the most fragile, accounting for a quarter of all business insolvencies in Australia.

Despite state government and industry efforts to address the challenges, the industry has struggled to fundamentally change. This paper recognises the role for all stakeholders, government and industry, and specifically pinpoints the opportunity for the Federal Government, as a significant bankroller of the nation's major infrastructure projects, to initiate change. It presents a solution that will see the industry's many challenges addressed through government procurement processes.



# CONSTRUCTION HIGHS AND LOWS

The Australian construction industry is integral to the economy. It is the third largest industry in the country, employing 1 in 10 people and contributing almost 8 per cent of GDP. The construction industry has been called upon to rebuild Australia's economy in response to COVID. It has seen record investment in the construction of new infrastructure on the basis that every dollar invested in infrastructure has a \$3 kick on to the wider economy.

While COVID prompted record investment in infrastructure, it also caused significant delay and disruption to many projects. The increase in work caused huge demand for workers, and flooding events and ongoing wet weather on the East Coast have only exacerbated this problem. Geopolitical instability has sent oil prices skyrocketing along with the cost of energy intensive construction materials and reduced availability of common commodities such as timber.

Contractors locked into fixed price contracts for projects that, in some cases, take years to build have seen single digit profit margins evaporate. The construction industry accounts for almost 25 per cent of all business insolvencies in Australia which is over three times the industry's contribution to GDP.

Moreover, the industry is experiencing a major lag in productivity growth. The construction industry has become 25 per cent less productive than other major industries

over the past 30 years. Industries like manufacturing and agriculture outperform construction so much so that construction only ranks above hunting in the McKinsey Global Institute Digitisation Index.

A happy workforce is a productive workforce and the lag in performance is undoubtedly reflective of the industry's culture. Construction is the most male dominated industry. Women make up just 12 per cent of the workforce and workers are six times more likely to die from suicide than a workplace incident. The industry is struggling to attract and retain sufficient people to undertake the future pipeline of work. Infrastructure Australia last year estimated that the sector was facing a shortfall of 105,000 workers and this was before the major flooding events.

## The Australian construction industry



**largest industry**  
in the country



**of GDP attributed**  
to the construction industry



**more workers needed**  
in less than 18 months

# CONSTRUCTION'S SILVER BULLET

The scarcity of qualified skilled workers and project management professionals is one of the biggest challenges facing the industry. Rightfully, discussions focused on reducing the barriers to employment and training are part of the Summit agenda; however, none of them are a silver bullet for the construction industry's problems.

Every other major country around the world is spending big on infrastructure, for the same reasons as Australia and international competition for resources is high. At the same time, Australia's attractiveness as a destination for skilled migrants has been impacted by floods, bushfires, the high cost of living and covid lockdowns. With Australia's unemployment rate at its lowest in almost 50 years and a further 105,000 workers needed in the construction industry alone training, however desirable, will at best make a small dent in the problem. For the construction industry the silver bullet to capability / capacity shortfalls is improved productivity—doing more with less.

The construction industry presents one of the greatest opportunities to improve Australia's overall productivity performance. In a recent report commissioned by the Australian Constructors Association, BIS Oxford economics identified that just halving the productivity gap between construction and other major industries would result

in savings of \$15 billion annually or more importantly, significantly reduce the amount of resources required deliver the current pipeline of work.

Support for improving industry productivity is unanimous. Government, industry and unions agree we need to find ways to do more with the resources we already have. This applies to both white- and blue-collar activities and arguably the bigger opportunities lie in improving how we procure, manage and govern projects. There is no shortage of aligned reports and recommendations that identify the issues and how to address them, including most recently a report produced by the House of Representatives Standing Committee on Infrastructure, Transport and Cities, titled 'Government Procurement: A sovereign security imperative.'

What is missing is a mechanism to ensure the various recommendations are implemented.



# A FAIR IDEA

ACA has a major policy reform idea to encourage adoption of reform recommendations, unlock productivity and help address the broad challenges facing the industry. We call the concept the Future Australian Infrastructure Rating—FAIR.

FAIR pinpoints the Federal Government, in its role as a major source of infrastructure funding, as being able to significantly promote reform. FAIR provides a way for the Federal Government to do this without the need for significant change to existing project governance/funding frameworks or prescribing how projects are to be delivered.

“ The FAIR initiative could be included in the next iteration of the National Partnership Agreement as a requirement for all federally funded projects.

FAIR is designed to rate federally funded projects on how well they performed against a range of key reform areas such as improved productivity, increased participation—particularly women, increased sovereign capability and reduced embodied carbon. It complements and builds on the success of existing schemes like NABERS, Green Star and the IS Rating to bring forward a national consistent approach to implementing reforms outlined in the Standing Committee report and the Australian Infrastructure Plan produced by Infrastructure Australia. Specifically, FAIR is designed to bring forward a step change in productivity, innovation and industry practice by instilling collaborative behaviours, focusing on quality outcomes and sharing lessons learnt.

All proponents seeking federal funding for projects would be required to submit details of how they intend to achieve improved project outcomes against a range of agreed key reform areas as part of the business case. On completion of the project a report would be submitted to the body administering FAIR setting out what was actually achieved. These reports would provide accountability by

demonstrating that projects performed as intended. They would also support the sharing of best practice and lessons learned (See figure 1 – FAIR implementation roadmap).

Projects would be given a rating that would be published, encouraging proponents to strive for increasingly better outcomes for their stakeholders. Just like people who look at restaurant ratings, contractors, wanting the opportunity to demonstrate their capabilities, would look at state government agency ratings when choosing where to focus their best resources, providing another reason for government delivery agencies to collaborate with industry to drive improved outcomes.

The FAIR initiative could be included in the next iteration of the National Partnership Agreement as a requirement for all federally funded projects. To further incentivise improved outcomes, high ratings could unlock access to new funding pools like the previous Asset Recycling Scheme.

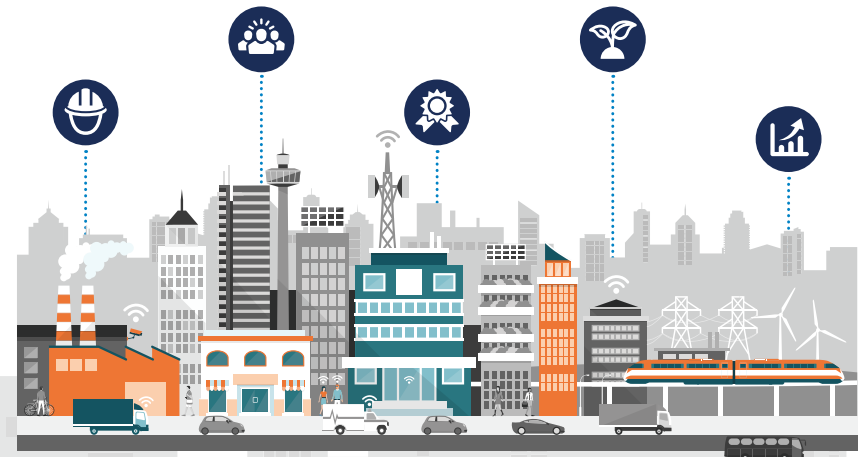
If implemented, FAIR would see governments address the industry’s skills shortage and more, while unlocking productivity gains that would improve the budget bottom line. FAIR is about driving innovation, improving productivity, building capability and capacity and improving the culture of the Australian construction industry so that it is an industry of choice, able to deliver the infrastructure that Australia needs—when it needs it—and for a price that it can afford.







## KEY REFORM AREAS



- **CULTURE:** mental health, diversity and inclusion (including female and indigenous workforce participation)
- **PEOPLE:** flexible work practices, skills and job stability
- **SOVEREIGN CAPABILITY:** utilisation and upskilling of Australian businesses and workers
- **SUSTAINABILITY:** net zero and existing rating schemes
- **PRODUCTIVITY:** innovation, digital transformation and reduced disputes

Figure 1 – FAIR implementation roadmap



# FAIR REFORM AREAS

The FAIR initiative has the ability to address each of the reform areas targeted by the Jobs and Skills Summit.



## FAIR REFORM AREA 1

### Maintaining full employment and productivity

There is no shortage of ideas to improve the productivity of the industry but there are many barriers to their implementation. Lengthy tender processes give the illusion of value for money whilst rarely delivering it, overly prescriptive work specifications leave little room for innovation, multiple levels of project governance add significant cost for no value and contracts keep lawyers busy rather than project teams collaborating.

Digital technologies offer huge opportunity for productivity improvement but rely on open and transparent sharing of information, something which most contracts actively discourage. Building information modelling (BIM) collects and stores data that reduces the cost of operating and maintaining an asset but until life cycle cost is considered at tender, or the use of the software specified, we will not see its considerable benefits realised.

Improvements in construction productivity would not only help address current capability and capacity shortfalls but it would also significantly reduce project costs and thus allow for more work to be undertaken and more people to be employed.



**FAIR will accelerate improved productivity which in turn will increase employment opportunities.**

## **FAIR** REFORM AREA 2

### Boosting job security and wages

The construction industry is facing a record pipeline of work and with this investment comes a great opportunity to deliver secure, well-paid jobs and strong, sustainable wages growth. The key to achieving this is through use of longer-term collaborative contracting models that provide a predictable volume of work with a stable and fair return not only for contractors but the whole supply network. Examples of such enterprise delivery models include Sydney Water's Partnering for Success initiative and the Level Crossing Removal Program in Victoria.

The enterprise approach is underpinned by longer term relationships between the asset owner and the whole supply network. Participants are incentivised to deliver better outcomes, and a step-change in innovation and productivity can be realised. Whilst not suitable for all types of projects, there is significant opportunity for this model to be more widely adopted through more careful planning of projects that are able to be consolidated into longer term programs of work.



**FAIR would encourage greater use of enterprise approaches to project delivery providing increased certainty to invest in people and productivity improvement.**

## **FAIR** REFORM AREA 3

### Lifting participation and reducing barriers to employment

From initiatives supporting the employment of disadvantaged Australians to indigenous engagement programs, the construction industry is second to none when it comes to giving every Australian an opportunity. The industry however has many challenges that prevent it from being an employer of choice, particularly for women.

To address gender diversity, working hours and mental health the construction industry's culture needs an overhaul. The Construction Industry Culture Taskforce is working to improve the culture of the industry through the development of a groundbreaking Culture Standard. The Culture Standard provides a framework for clients and contractors to work together to improve the conditions for workers in the construction industry. It proposes a set of standards be incorporated into procurement processes to improve worker time for life, wellbeing, and diversity and inclusion.

One of the key areas targeted by the Culture Standard is the gender pay gap. The construction industry has the widest gender pay gap of any industry and the Culture Standard seeks to address this. It calls on organisations to identify and disclose gender pay gaps across job roles and to develop and implement a plan to reduce these. Removing gender pay gaps will improve the ability of the industry to attract and retain women by providing an environment where women feel included, respected and rewarded for the contributions. An increased ability to attract and retain women will improve diversity within the industry which in turn will improve industry culture.

Research commissioned by the Construction Industry Culture Taskforce from BIS Oxford Economics, the Cost of Doing Nothing report, finds that current cultural issues in the industry are costing the Australian economy nearly \$8 billion annually due to workplace injuries, mental illness and suicide.



**FAIR will incentivise adoption of the Culture Standard to ensure women have equal opportunities and equal pay in construction and improve the mental health and wellbeing of all workers.**

## **FAIR** REFORM AREA 4

### Delivering a high-quality labour force through skills, training and migration

Investment in training is necessary and will help with skills shortages in the medium to long term; however, in today's high employment environment it risks transferring the problem from one industry to another as workers upskill from lower skilled industries to higher skilled ones. To address the immediate 105,000 worker shortfall, the only viable option is to become more productive with the resources we have. The opportunity to address inefficiencies through government procurement processes is enormous. Streamlining design reviews, improving reliance on tender information and addressing prescriptive requirements for project team members will help to free up resources whilst developing more agile and diverse project teams.

People are undoubtedly the construction industry's biggest asset and when considering the mix of skills over the long-term consideration must be given to upskilling the industry's people to use new technology and drive efficiencies. When the construction and technology worlds finally collide, the industry will face the challenge of data and how to effectively use it. Emerging technologies and digitalisation drive efficiencies and capture data; however, if people do not trust the data and do not use it, industry productivity will not improve.



**FAIR will lift sovereign capability by incentivising reduced project prescription, increased workplace flexibility and adoption of new technology.**

## **FAIR** REFORM AREA 5

### Maximising opportunities in the industries of the future

The construction industry is strongly placed to help enable Australia's transition to a net zero future as it is estimated that Australia's construction industry generates 30 to 50 million tonnes of carbon emissions every year.

There is no shortage of solutions to reduce these emissions, many of which were developed here in Australia, but there are numerous obstacles to their adoption. Prescriptive project specifications and conservative approaches to design, coupled with a focus on lowest possible tender price rather than maximised project value, mean that we are still building roads largely like the Romans did.

The construction industry stands ready to accelerate the journey to net zero and a whole-of-business, systems-based approach across asset lifecycles is required. This includes pulling key levers such as procurement, materials, methodologies, technology and people capability, supported by clear government policy.



**FAIR will help drive net zero in construction by incentivising improved outcomes under existing sustainability rating schemes such as those run by the Green Building Council and Infrastructure Sustainability Council.**

# FAIR FUTURE FOR CONSTRUCTION

In developing the FAIR concept, ACA consulted extensively with key industry stakeholders such as state and federal government departments, Treasuries, industry bodies and associations and unions. The response to the proposal has been generally positive.



**In its latest State Infrastructure Strategy, Infrastructure NSW acknowledged the opportunity for the Federal Government to play a more active role in project decision making.**

*NSW is changing its procurement of large, complex projects to include more recognition that some risks cannot be reliably quantified prior to commencement of construction.*

*As part of this approach, steps are taken to de-risk projects, to the extent possible, prior to main works and to identify risks that may require risk sharing mechanisms. This approach is supported by the Australian Government and co-funding arrangements should reflect the fact that final outturn costs (the actual total costs of construction) are less certain. Greater sharing of cost risk between the NSW Government and the Australian Government may also imply greater involvement from the Australian Government across the project development stages and in associated decision making.*

FAIR also addresses recommendation No. 3 of the House of Representatives Standing Committee on Infrastructure, Transport and Cities, titled 'Government Procurement: A sovereign security imperative'.

“ That the Federal Government, in consultation with state, territory and local governments, establish a mechanism for monitoring and rating funding recipients' performance on government-funded infrastructure projects, capturing elements of whether the project was delivered to the required standards, on time and on budget.

A modest budget commitment is required to progress the concept. Ultimately it is envisaged that FAIR would be self-funding through the significant productivity savings that it would generate.





Once funding is allocated, it is anticipated the immediate actions would be to map existing rating schemes/ governance mechanisms to identify the best home/owner for the FAIR process, develop an assessment framework, and start piloting projects. Ideally, by the time of the next iteration of the National Partnership Agreement, there would be a requirement for all federally projects to be assessed under the initiative. The name 'FAIR' has been used to highlight the concept only and it is not expected to be retained for implementation.

While this paper has been developed for the Jobs and Skills Summit, its relevance extends far beyond jobs, skills and productivity. At its core, it seeks to improve the sustainability of the industry. We recognise that industry has an important role to play, and we are committed to working with

government and industry stakeholders to progress positive initiatives. Our ambition is for the construction industry to be radically different in 10 years' time. We need to fundamentally change the system, so contractors compete on innovation, productivity, quality and sustainability rather than just price.

Governments internationally have released the magnitude of the construction industry in supporting economies and that is why the UK Government developed its Construction Playbook and the NZ Government has the Construction Accord. The FAIR proposal is unique, and it will see Australia's construction industry emerge as a worldwide leader and industry of choice for future generations of workers.



# AUSTRALIAN CONSTRUCTORS ASSOCIATION

The ACA is the only representative body covering the three key sectors of the industry—vertical, horizontal and construction services. Collectively, our members construct and service over 90 per cent of the value of major infrastructure projects built in Australia.

We are the only industry association partnering in the Construction Industry Leadership Forum—a collaboration we hold with the governments of NSW, Victoria and Queensland. Through this forum, government and industry are working together to improve the effectiveness and value of the procurement and delivery of government infrastructure programs.

We also represent industry as a partner in the Construction Industry Culture Taskforce. Through this collaboration with the governments of Victoria and NSW we have produced the ground-breaking industry Culture Standard. Once finalised, governments and industry will be called upon to incorporate compliance with the Culture Standard into their procurement requirements in order to increase individual time for life, improve worker wellbeing and increase workforce diversity and inclusion.





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