

Australian Constructors Association

Australian Skills Guarantee

December 2022

The Australian Constructors Association (ACA) welcomes the opportunity to contribute to the consultation process for the Australian Government's proposed Australian Skills Guarantee (Guarantee).

We note the policy's focus on skills and training, as well as female workforce participation. Successfully addressing these issues is critical to the ongoing sustainability of the construction industry.

About us

Established in 1994, 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.

Design of the Guarantee

Like many advanced economies, Australia is facing a future of increasingly constrained labour markets. This trend will challenge construction more than most industries as it faces out-sized demands on its services. As we progress through the middle half of this century, construction firms will find it more difficult to maintain business models that simply reproduce the existing paradigm. There is a pressing need to expand the pool of labour available to the construction industry.

ACA strongly supports the goal of increasing the skill-base of the construction industry and its female representation as a way of navigating this challenging future. We are supportive of the Commonwealth leveraging its buying power to promote constructive change in the industry. We consider that a well-designed Guarantee could be a useful and important policy instrument.

That said, we note governments are increasingly looking to construction procurement as a lever to achieve social policy objectives. While this is understandable, it is important to remember that construction companies are not social policy delivery agencies. A risk of this public policy approach in general is that it simply outsources problems to private sector entities who are not equipped to effectively resolve the issue.

This is a particular challenge in construction, where head contractors are expected to drive action through their supply chains. This can be a difficult and time-consuming task that requires capabilities beyond the traditional skillsets of construction firms. Rather than asking contractors to act as proxies for government, we encourage government to consider ways to leverage subcontractors more directly to achieve social outcomes.

We also note that workplace inequality is a complex issue with deep socio-historical roots. It is unreasonable to make it a problem of and for industry alone. While the construction industry is resolutely committed to making construction more equitable and diverse, we must recognise this is not a singularly ‘industry’ issue. We insist upon the expertise and resources of government and unions to work with us to promote cultural change. We consider the National Construction Industry Forum (NCIF) to be a key vehicle for this work.

We also caution against an exclusive reliance on targets as a policy instrument. A well-known problem in policy design is that objectives are undermined, often fatally, when an oversimplified and narrowly-focused goal becomes the solitary aim.¹ This is not to say objectives are unimportant—targets are effective when they establish benchmarks for progress. But when a target itself becomes the end goal, incentive structures become distorted and ‘gaming’ behaviours inevitably emerge. Any Guarantee must be viewed as merely one tool for improvement and be supported by more holistic change programs.

Governments play an important role in providing ‘scaffolding’ to support companies to meet targets. In Queensland, for example, the quasi-government agency, Construction Skills Queensland, provides important assistance to firms in meeting that state’s training, gender and indigenous targets. These supports include interpreting policy requirements, brokering training services, conducting needs analyses, and connecting contractors with relevant services. State-based infrastructure agencies play a similarly important role in providing platforms for contractors to access local supply chains and labour markets in support of local content targets.

Similar scaffolding will be critical to the success of the Guarantee. This could be delivered by agencies with a regional footprint, including the Department of Employment and Workplace Relations and the Department of Industry, Science and Resources; however, it is important they are well-resourced. These services need to be available to all contractors subject to any Guarantee. We consider that the Guarantee should not be imposed until it is made clear how the Government intends to support industry in achieving the targets.

Finally, we would encourage a more holistic view of skilling that encompasses not just new entrants but also existing workers. This is similar to the Discussion Paper’s notion of a ‘learning worker’ for industries other than construction; however, construction as much as any industry needs more emphasis on ongoing training and development. The Guarantee presents an opportunity to promote a culture of lifelong learning in the trades. One alternative to the classical apprenticeship target is to adopt a target for training expenditure as-a-whole. This could extend to a portion of training hours to be non-accredited, which is often a considerable share of the total training provided on major construction projects.

Implementation of the Guarantee

One-in-ten target

We note the proposed Guarantee seeks to ensure one in 10 workers on major Australian Government funded projects is an apprentice, trainee, or paid cadet. While the principle

¹ This phenomenon is often termed ‘Goodhart’s Law’ (cf. Strathern ‘Improving ratings,’ Eur Rev. vol. 5, 1997).

of a training target operates in many jurisdictions, the practicalities of any new target requires careful consideration.

The Discussion Paper contemplates an hours-based target, where training hours are calculated using total labour hours of the workforce for the contract, including sub-contractors. The experience with similar targets in other jurisdictions suggests the specific manner in which the target is calculated can lead to confusion and unrealistic expectations.

In practice, an hours-based target is typically operationalised in a four-step calculation:

1. The 'total cost' of the project is estimated, which is not the same as the price of the project.
 - E.g. \$100 million
2. The 'labour cost' of the project is calculated by multiplying the total cost by a 'labour ratio'—the percentage of total cost spent on labour (say, 30%).
 - E.g. \$100 million x 30% = \$30 million
3. The 'total labour hours' are calculated by dividing the total labour cost by a labour rate—i.e. a fixed price per hour of labour.
 - E.g. \$30 million / \$100 per hour = 300,000
4. The 'training hours' are calculated by multiplying the total labour hours by the 'target' (say, 10%).
 - 300,000 x 10% = 30,000

It is clear from this stylised example that the number of hours that would be required to be performed by an apprentice on a given project depends on several parameters. Changes to the way each parameter is set can lead to very different training hour requirements.

Construction projects are highly variable across all these parameters. This means a static and uniform approach to setting them is likely to deliver inflated and unachievable training requirements for some projects. For example, a labour ratio of 35 per cent may be appropriate for some residential projects, but much less appropriate for a road project. Similarly, the labour rate can vary widely across project types and locations. The methodology requires careful design to accommodate this inherent variability.

Relatedly, jurisdictional training targets are typically designed around trade apprentices and trainees. In these cases, the appropriate reference class in determining the training hours on a project is the trade workforce, not the total workforce on the project. Further, it goes without saying that apprentices can only be employed where an apprenticeship exists for an occupation—occupations without an apprenticeship pathway are unable to contribute to a target. It is therefore important that the labour ratio is set in a way that isolates only those components of the workforce with a training pathway; otherwise, the required training hours may be unrealistically inflated.

A related concern is that a one-size-fits-all approach may disincentivise innovation and productivity growth. If every project of a given size and scope attracts the same training hour commitment, projects that are able to economise on labour through innovative

methods and materials will effectively be required to absorb a higher ratio of training hours to total hours. This will act as a disincentive to innovation and consideration should be given to ensuring any methodology immunises against this unintended consequence.

It is self-evident but important to note that apprentices and trainees produce a reduced level of output compared to a qualified tradesperson. In addition, apprentices and trainees impose a non-trivial supervisory overhead on the qualified trade workforce of a project. The labour productivity of a project therefore falls as the share of apprentices in the workforce rises. For this reason, it is important that procuring agencies understand that, insofar as any Guarantee raises the apprentice share on a project, the labour bill will be higher than an equivalent project not subject to the Guarantee. There needs to be understanding that overall project costs will be higher under a Guarantee.

Another risk to successfully implementing a Guarantee is that there may be insufficient capacity within the industry to provide appropriate supervision (both technical and skilled managerial/pastoral) for the apprentice or trainee. This will be a particular challenge on smaller value projects where there is typically less capacity for high quality supervision. Appropriate wrap-around services need to be available to ensure the Guarantee does not inadvertently exacerbate attrition rates, particularly in the early years of apprenticeships.

We note the government's proposal to include paid cadets in the Guarantee. While this is uncontroversial in-principle, it too requires careful consideration. Cadetships do not have the same nexus with employment as an apprenticeship or traineeship. While the apprenticeship is the almost-exclusive pathway to a trade career, the same cannot be said of a cadetship. A far higher number of apprenticeships than cadetships is therefore to be expected on any given project. Any methodology must accommodate this compositional bias in the industry's occupation profile.

The definition of cadet should also be expanded to include workers employed in a formal graduate program. Many construction contractors make significant skills investments via graduate programs, and this should be recognised in the context of the Guarantee. As it stands, the definition of cadet excludes graduates as they are typically no longer undertaking academic study.

These comments only serve to give a flavour of the complexity in implementing an hours-based target. Significant thought must be given to appropriately and transparently benchmarking the relevant parameters to ensure a realistic target is set that does not inadvertently disadvantage certain sectors or locations. It is also important from a credibility and sustainability perspective that any target is viewed by industry as both proximate and achievable. ACA stands ready to work with government in harnessing the appropriate datapoints to inform this work.

Female participation target

We consider female representation targets to be more problematic than training targets. This is because the female construction labour force is a classic 'thin market'—i.e. there are few active participants on the supply side. This makes it difficult for firms to find matches for specific mixes of qualification, experience and location. As a result, there is a high risk that quota-based targets do little more than generate a type of 'skill inflation' whereby firms are unable to access female labour on reasonable terms and are forced to bid-up the price of this scarce and inelastic input.

In place of prescriptive quotas, we favour more intermediate targets designed to incentivise the types of behaviours that are likely to lead to more equitable gender outcomes. For example, we draw the government's attention to the significant body of scholarly work completed under the auspices of the Construction Industry Culture Taskforce. This work highlights work-life balance and flexibility as a key enabler of greater gender diversity. We would encourage the government to consider an enabling target around this theme as an alternative to the proposed outcome-based target.

Consideration must also be given to the reference class problem in setting any target around female participation. Women account for less than five per cent of tradespeople but more than 10 per cent of the industry's professionals. It will be important that any target framework incorporates this occupational variability. Government should be clear on its expectations for women in trade roles compared to women in professional roles. These cohorts may require different targets.

That said, any target should encompass the entire construction workforce, not just the trades. This corresponds to Option 3 in the Discussion Paper. Achieving gender equity requires universal cultural change within the industry and this will only be achieved by promoting female participation throughout all levels and occupations.

Administration of the Guarantee

Significant thought needs to be given to the way that data will be captured and reported across the many projects, contractors and subcontractors that will be involved in this scheme. At the very least, a central portal should be created to support this data collection effort. In all likelihood, a dedicated team within government will be needed to support both suppliers and delivery agencies in implementing the Guarantee.

The Guarantee would impose additional costs on contractors, principally in the areas of administration, awareness and training. Contractors will need to review and update procedures and systems for ensuring data can be provided to the Commonwealth depending on the final requirements of the scheme. This could imply additional internal resources to support the business with data capture and analysis. The likely costs associated with increased time and resources for contractors to complete tendering requirements is difficult to determine without knowing the detail of the final model.

With this in mind, the implementation approach and timeframe (Chapter 5) seems ambitious. This substantial reform merits wider consultation and education, with a comprehensive supporting framework. ACA would be keen to work closely with government to co-design an appropriate framework that delivers a workable and efficient Guarantee.

Scope of the Guarantee

We note the Discussion Paper is focussed primarily on major procurements but also contemplates extending the Guarantee to a range of sectors. Beyond the obvious direct application on major construction projects, it is worth considering applying the Guarantee to the ongoing operational 'repair and maintenance' activities associated with capital assets. These activities often employ substantial numbers of tradespeople and offer a more stable and longer-term source of employment compared to one-off construction contracts. In Queensland, for example, most of the trade apprentices employed directly

by government are deployed to maintaining the state’s asset portfolio—rather than new construction—as this offers a more regular and ‘plannable’ pipeline of work.

The discussion paper also makes mention of the renewable energy sector. We note the development of renewable energy assets involves generic construction activities and does not constitute an altogether different sector or industry. It is also clear that that these projects do not require any especially novel skillsets, particularly in the construction phase.² Renewables are simply another asset class to which conventional construction processes and resources are applied. For the purposes of the Guarantee, then, it is not clear that renewables justify any special treatment outside of the general-purpose regime.

In terms of the financial threshold for the application of the Guarantee, we consider that Option 2 (\$20 million and above) is most appropriate. This is because smaller projects face a much thinner labour profile, particularly in the more specialised occupations. A smaller project may only require a very small number of people to undertake certain tasks which may only be intermittently required throughout the project. This provides less opportunity for workers to be trained and makes supervision logistically difficult.

Regional and remote projects present challenges as these localities generally offer a smaller pool of people interested in undertaking an apprenticeship. In addition, many locations do not offer qualifications in several relevant trades. The logistics of completing an apprenticeship under these conditions dissuades many people from entering into a training contract and makes the achievement of targets difficult, especially where there is limited support from government or other relevant organisations.

Experience with other schemes

Generally speaking, target regimes are achievable where projects are of a scale sufficient to provide a critical mass of labour to support the required training and supervision. Even then, successfully achieving targets requires that projects are well set-up with a strong culture established and a whole-of-project approach is taken to meeting workforce targets. Often a dedicated resource is in place to coordinate the relevant activities. As noted above, support from government agencies and other relevant organisations has been critical to successful participation in state-level schemes.

The ‘lumpiness’ of the labour profile on construction projects presents ongoing challenges in schemes that set static targets throughout a project life cycle. A typical construction project begins with relatively fewer labour hours, particularly in the trades, and ramps up to a peak throughout the middle part of the project. Labour demand then tapers down as works advance toward project completion. If the quantum of required training hours remains fixed throughout this cycle, performance against the target inevitably falters during periods of lower labour utilisation.

Another area of practical challenge is the way in which the scheme accounts for off-site labour—e.g. for prefabricated elements. This is particularly challenging when the value of a supply contract is incorporated into the ‘total labour cost’ (the denominator), but the training hours completed off-site (the numerator) cannot be claimed towards the target. The effect of this is to inflate the number of training hours required on-site.

² Construction Skills Queensland, *Queensland’s Renewable Economy: investment, jobs and skills*, 2022.

Initiatives to support women in VET

We commend the government for its emphasis on encouraging and attracting more women to trade occupations. However, we note that the questions raised in the Discussion Paper have been asked and answered over recent years by myriad reports and reviews commissioned by jurisdictional agencies and industry bodies. We consider that this consultation process is not the best place to conduct a meta-analysis of this work, although that would be a fruitful for exercise for the Commonwealth to undertake.

The biggest challenge we face is the disjointed nature of the many existing bodies of work already underway. We consider the most useful contribution the Commonwealth could make is to provide a mechanism to aggregate results and share lessons. Greater national coordination would reduce the substantial duplication of effort in this space and maximise the impact of the investments being made. The narrative around female participation remains deeply contested, and consistent messaging is one key element that would greatly benefit from national coordination.

We also re-emphasise our earlier point that the focus must be on *all* male-dominated occupations—not just the trades. To take one example from construction, a recent Infrastructure Australia report³ found that two-thirds of occupations relevant to public infrastructure are likely or potentially in shortage; half of these are ‘white collar’ roles—engineers, scientists and architects. Going forward, the report expects a shortfall of 89,000 project managers, engineers, scientists and architects, compared to 29,000 tradespeople and labourers. Increasing female participation across the board will be critical to filling these shortages.

³ Infrastructure Australia, *Infrastructure workforce and skills supply: a report from Infrastructure Australia’s Market Capacity Program*, October 2021.

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