

Australian Constructors Association Employment White Paper

November 2022

The Australian Constructors Association (ACA) welcomes the opportunity to contribute to the consultation process for the Australian Government's Employment White Paper.

We note the White Paper's focus on full employment and productivity growth, as well as women's economic participation and equality. Successfully addressing these issues is critical to the ongoing sustainability of the construction industry.

This submission emphasises issues of labour supply and productivity, and their intersection with workplace relations policy.

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.

The productivity imperative

The fundamental challenge facing Australia's construction industry is an imbalance between supply and demand. Quite simply, the community's built environment needs are outstripping the construction industry's capacity to deliver. This is not a cyclical story; it is a structural tendency being driven by long-term, underlying trends in Australia's economic and demographic trajectories.

Demand-side pressures continue to grow

The development sector, both public and private, is now suffering from diseconomies of scale—that is, as population density increases, it costs more per capita to deliver built environment outcomes. These diseconomies are most visible in the large and complex 'megaprojects' that require expensive delivery strategies (such as tunnelling) in Australia's major cities.

Yet as the industry struggles to simply keep up with population growth, it is facing an additional set of demand drivers. Chief among these is the renewables transition. On any estimate, the goal of net zero implies a colossal amount of construction activity over the coming decades.¹ That is to say nothing of other demand-side shocks, such as the 2032 Olympics, the 2026 Commonwealth Games, or the renewed focus on domestic investment in the context of a changing geopolitical landscape.

¹ Construction Skills Queensland, *Queensland's Renewable Economy: investment, jobs and skills*, 2022.

These fundamental demand-side pressures are being compounded by a range of other factors that will inevitably impose additional burdens on the construction industry.

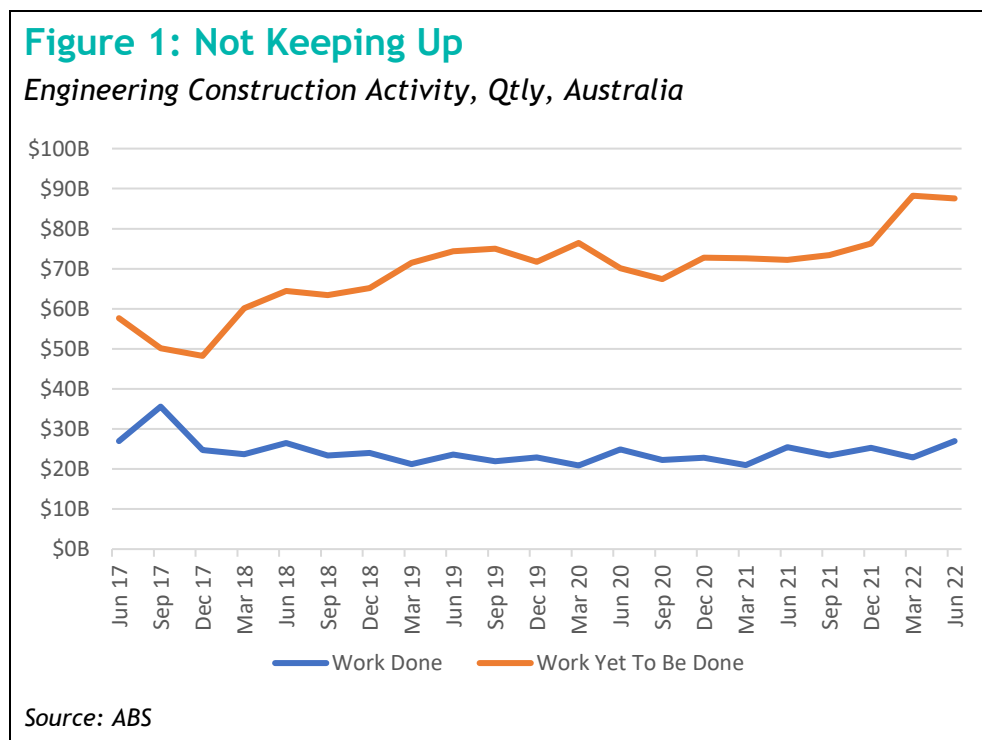
The Environmental, Social and Governance (ESG) agenda is one important source of additional demand. Procurers and policy makers are increasingly looking to construction as an avenue to achieving social objectives. The labour intensity of construction makes it an ideal site for skilling and training interventions, while its carbon intensity makes it an obvious target for decarbonisation efforts.

In addition, governments are increasingly seeking to leverage public investment in support of economic policy—particularly in regional Australia—as well as in respect of supply chain security and sovereignty. Improving the culture and safety of the industry are also growing areas of focus for government clients.

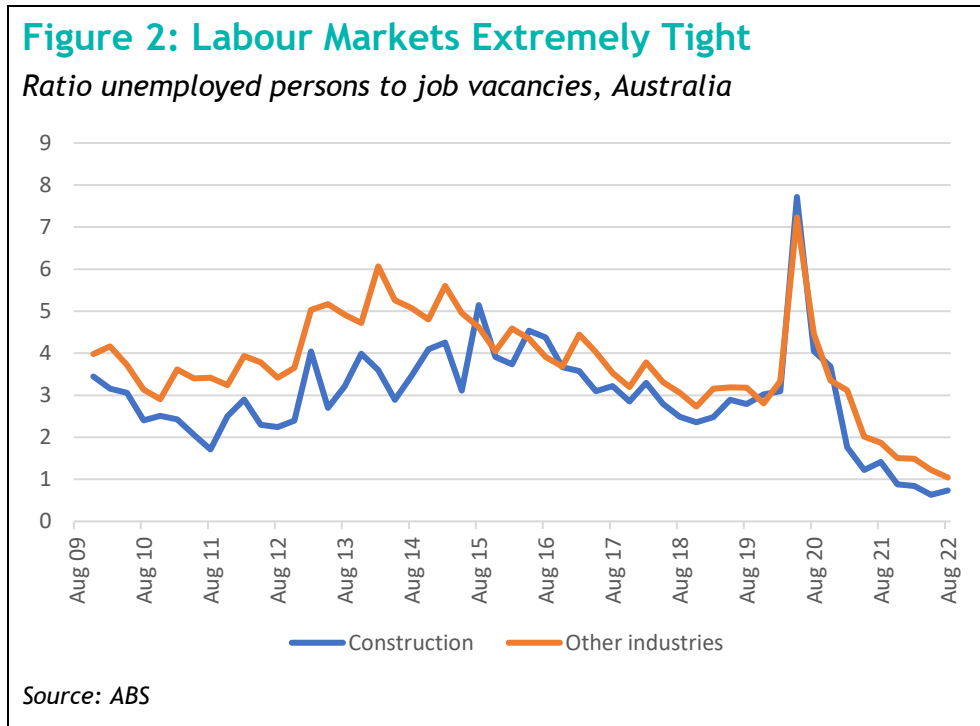
These are important and necessary areas of reform. Yet the reality is they add non-trivial costs—both in terms of time and money—to construction projects. When combined with the sheer scale of expected capital investment, these factors make for an unprecedented construction demand profile over the coming years and decades.

Hitting supply-side limits

The industry has limited scope to absorb this increased demand simply by scaling its operations. In fact, the aggregate data suggests we are already falling behind (**Figure 1**). Over the last five years, the forward pipeline of committed engineering works increased from \$50 billion to \$90 billion. Yet the amount of work actually done stagnated at around \$25 billion per quarter. In other words, as the volume of commissioned construction work has increased, the industry has been unable to lift its work-rate commensurately.



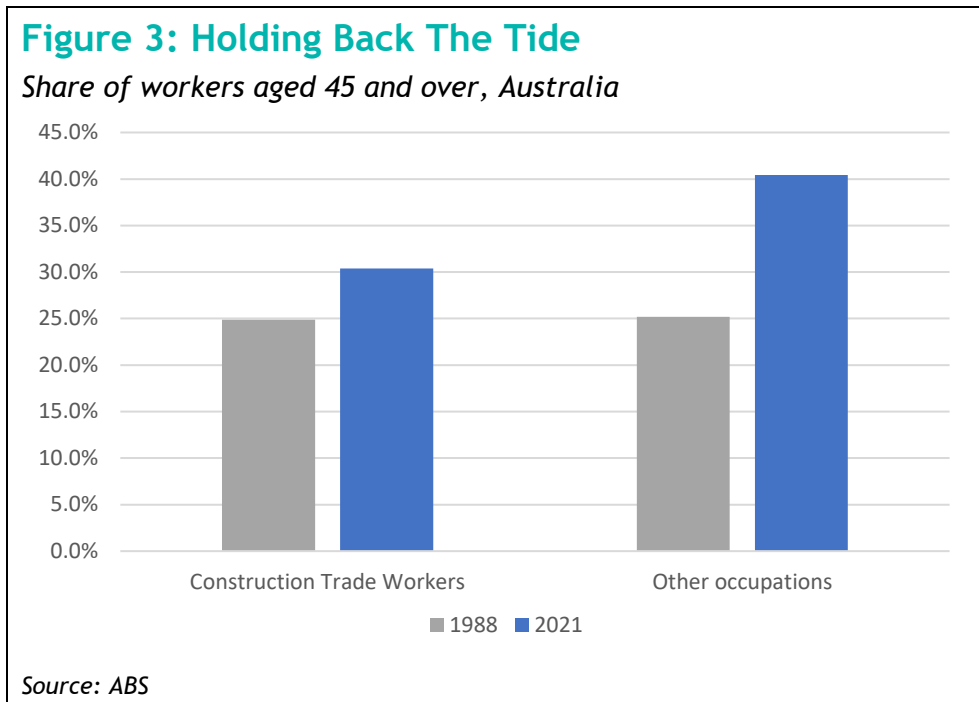
Labour supply is the key limiting variable here. **Figure 2** shows that labour markets are unprecedentedly tight. Usually there are around three unemployed people for every job opening in the construction industry. Today that ratio stands at less than one.



It would be a mistake to think these are temporary effects of the pandemic. While COVID-induced labour market distortions are particularly acute in the immediate term, they are dwarfed by much deeper forces operating on much longer timeframes. There are two roots to this challenge: the age profile of our industry and the patterns of demographic ageing.

The ageing population is a well-known phenomenon; less well-known is its implications for labour markets. Declining fertility is driving up the average age of labour forces across the world and Australia is no exception. In the 1980s about 25 per cent of the Australian workforce was aged 45 or older. Today, that age bracket accounts for 40 per cent of all workers. Soon enough, they will be in the majority. This means people of prime working-age are a shrinking segment of the overall population.

The construction industry is especially exposed to this trend. Two-thirds of construction trade workers are aged 18-44 and male. That demographic makes up only 22 per cent of all other occupations. As older workers have been taking an ever-larger share of employment, the construction industry has been resisting the trend—its over-45 segment has grown much more modestly (**Figure 3**).



While popular attention is often directed to the shortage of trade roles in construction, it is important to emphasise the critical risks around ‘white collar’ labour supply. A recent Infrastructure Australia report² found that two-thirds of occupations relevant to public infrastructure are likely or potentially in shortage; half of these are 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.

In summary, advanced economies everywhere are facing a future of increasingly constrained labour markets. This trend will challenge construction more than any other industry as it faces out-sized demands on its services. As we progress through the middle half of this century, construction firms will find it increasingly difficult to maintain business models that simply reproduce the existing paradigm.

Reducing barriers to entry

One way to address the challenges facing construction is to recruit an ever-larger share of the existing worker base—young men—to the industry. Successfully harvesting labour from this shrinking pool of talent requires significant efforts to make the industry more attractive, particularly to younger generations who increasingly view construction as an unattractive destination. It will likely drive-up labour costs as it pits construction in fierce competition with the myriad other industries also vying for that cohort’s attention.

Another option is to tap other pools of labour. Women are an obvious example, accounting for less than 5 per cent of tradespeople and little more than 10 per cent of the industry’s professionals. Convincing more of this cohort to join the industry is an important

² Infrastructure Australia, *Infrastructure workforce and skills supply: a report from Infrastructure Australia’s Market Capacity Program*, October 2021.

strategy—not only for capacity reasons but also for the good of the industry. This task requires substantial cultural transformation at all levels of the construction value chain.

ACA stands ready to work with government and unions to promote cultural change within the construction industry to attract a broader cross-section of labour. We consider the National Construction Industry Forum (NCIF) to be an important vehicle for this work.

RECOMMENDATION 1

Government, unions and industry to work together through the NCIF to promote cultural change within the construction industry.

While migration is often proposed as a solution to labour market issues, it delivers only short-term outcomes. In the medium-to-longer term, any gains made on the supply-side are offset on the demand-side because every new migrant needs a new home, a little extra road to drive on, another seat at the theatre, and so on. In addition, as the Productivity Commission has noted,³ migrants get old too, so the strategy requires ongoing—and ultimately unsustainable—increases in migration.

A more realistic long-term option is to capture 'displaced' labour. For example, it has been speculated that climate change and automation will see thousands of production and transportation jobs shed over the coming decades.⁴ Many of these displaced workers will be excellent candidates for redeployment to the construction industry. It is not clear, however, how many workers these processes might release and on what timeframe. This area is worthy of further research and policy attention; the prospective new agency, Jobs and Skills Australia, would be an appropriate organisation to lead this work.

RECOMMENDATION 2

Jobs and Skills Australia to undertake detailed research and policy development around identifying and unlocking pools of displaced labour and creating pathways for transition to adjacent occupations and industries.

The productivity gap in construction

Notwithstanding any success the construction industry may have in tapping into non-traditional pools of labour, it is unlikely that the future demands for construction services will be met without a material increase in productivity. Quite simply, we must find ways to deliver built environment outcomes with much fewer labour inputs. This is much easier said than done.

Construction is a notoriously cyclical industry. Not only is construction activity more sensitive to key macroeconomic conditions—such as the interest rate cycle—its different market segments often run at different speeds. The geographical distribution of activity can also be highly uneven and variable through time. This environment requires firms to maintain an agile posture that enables them to quickly surge their output from prior lows,

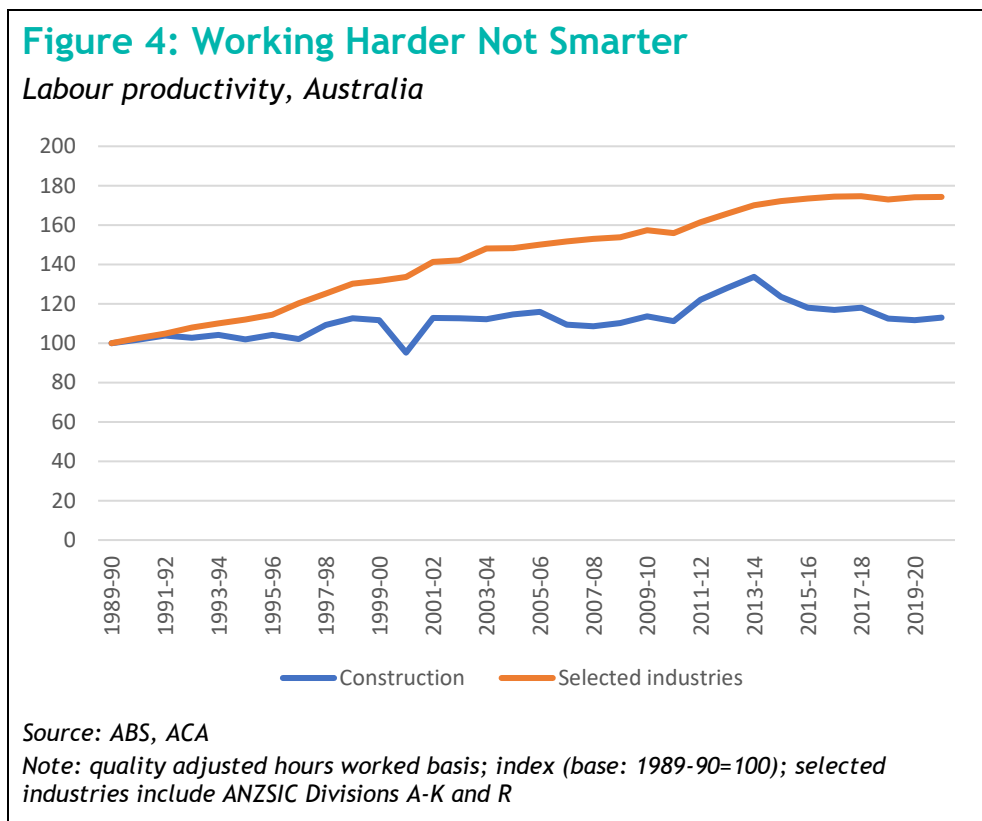
³ Productivity Commission, *A 'Sustainable' Population? - Key Policy Issues*, Chapter 13, 2011.

⁴ McKinsey Global Institute, *The future of work after COVID-19*, 2021.

and vice versa. This demand for flexible efficiency favours lean business models and fragmented supply chains. While construction firms have become well-suited to this environment, this adaptation comes at a cost.

The project-orientation of construction forces firms to compete on price and makes it difficult to spread costs across projects. Each project is essentially a bespoke item produced in a unique environment, making standardisation much more difficult than in a factory or on a farm. The fragmented nature of the industry creates a bias toward small firms, which severely limits the capital available to invest in innovation. As a result, the industry favours short-term productivity within projects at the expense of innovation and learning across projects - let alone between firms.

Extremely poor productivity growth is a consequence of this operating environment (Figure 4). Whenever the construction industry has been asked to surge its output, it has done so by simply scaling its existing operating model. Where other industries find ways to produce more things with less people, construction simply throws more manhours at the problem. Figure 4 shows that labour productivity growth since 1990 for a broad group of industries was more than five times that of construction.



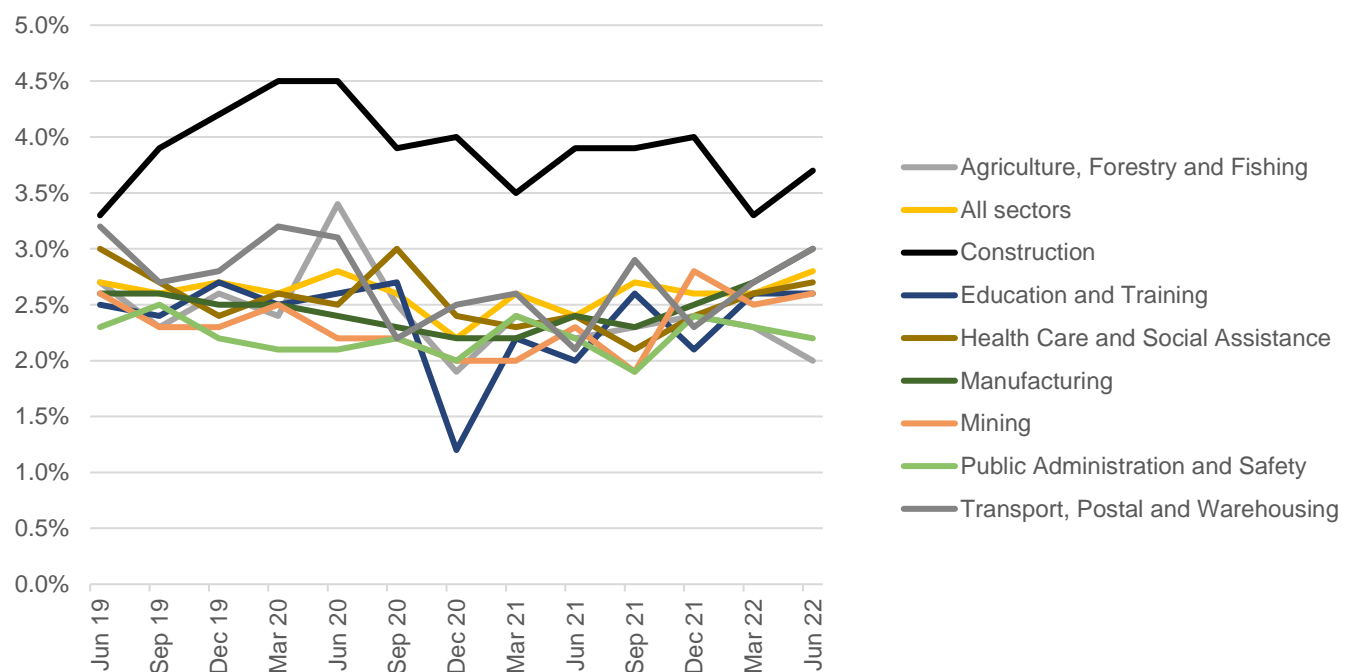
While the need to lift construction productivity is compelling, history suggests it is highly unlikely to occur organically. The construction industry has adapted to its commercial environment via a low productivity, labour intensive business model. This model is not the result of retrograde management practices, but rather of optimising firm-level decisions. In the absence of deliberate efforts to reset the parameters that shape these decisions,

reforms to employment and workplace relations policy will only further constrain construction output in Australia.

The risks of bad industrial policy

Existing bargaining arrangements have consistently delivered wage increases for construction workers well-above all other industries (**Figure 5**). Wage increases in construction agreements have averaged 3.9 per cent per annum for the last three years. This is at the upper end of what the RBA Governor has characterised as ‘normal’.⁵ Against a backdrop of near-zero productivity growth (revisit Figure 4), any further wage increases are likely to be inflationary. There is a clear risk that any reforms designed to further increase wage growth in construction will bring forward this outcome.

Figure 5: Average Wage Increases for Federal Enterprise Agreements



Source: DEWR

Notes: agreements approved in the quarter; data annualised

Beyond the prospect of unsustainable and inflationary wage claims, our principal concern with any workplace relations reform is the risk it will add unnecessary complexity and friction to the system without adding any benefit to the industry’s overall functioning. The construction industry has been the subject of systematic and ongoing non-compliance with industrial laws, well in excess of any other industry.⁶ Any dilution of the existing regime is

⁵ Lowe, P. *Productivity, Wages and Prosperity*, Reserve Bank of Australia, 13 June 2018.

⁶ For a recent example, see the judgment of Logan, J. in the Titan Cranes Case, Federal Court of Australia, 2022.

likely to embolden the industry's bad actors and increase the incidence of non-compliance on Australian construction sites.

This is not a trivial issue. As it stands, the construction industry is grappling with severe capacity constraints that are generating a wave of insolvencies—construction currently accounts for 26% of insolvencies but only 17% of businesses.⁷ The industry will not be able to absorb any escalation in industrial non-compliance without its firms and workers enduring significant further harm.

The need for proactive productivity measures

The reality is that any labour reforms designed to increase wage growth will mechanically increase the cost of construction projects in Australia. These increases will be felt not only on-site but throughout the entire built environment value chain. These costs will be transmitted directly to prices at the same time as the reforms slow construction output—the prospect of a 'stagflationary' scenario is very real.

To avoid this outcome, the costs of any reform must be offset with measures to improve the industry's productivity. As a principle, employment and workplace relations policy should be considered within a broader suite of economic and industry policy reforms.

RECOMMENDATION 3

Any employment and workplace relations policy to be developed within a broader context of economic and industry policy, giving due consideration to policy externalities and appropriate offsetting measures.

In particular, ACA encourages the government to urgently progress its pre-election commitment to develop an infrastructure procurement policy that delivers on long-term economic, environmental and social objectives. Leveraging the Commonwealth's infrastructure spend to achieve more efficient procurement and value for money should be a focus of the infrastructure procurement policy.

RECOMMENDATION 4

Urgently progress the government's pre-election commitment to an infrastructure procurement policy aimed at delivering on long-term economic, environmental and social objectives.

The more we invest in collaborative planning and design, the fewer risks we encounter in delivery. Investments in early planning incorporating the input of all parties—clients, contractors and consultants—have been shown to raise productivity substantially. One survey of megaprojects found those with high levels of up-front planning were 62 per cent less likely to experience cost overruns than those with poor levels of up-front planning.⁸

⁷ ASIC Australian Insolvency Statistics, Series 1; ABS Cat No. 8165.0, Table 1.

⁸ Merrow, E, *Industrial megaprojects: Concepts, strategies, and practices for success*, Wiley, 2011

It is open to the Commonwealth to play a much stronger role in creating a best practice, nationally consistent procurement environment. One useful contribution from the Commonwealth would be to lead the development of a model procurement framework to promote best practice and provide guidance on specific methodologies and approaches. This could be similar in approach to National Uniform legislation that has been used to drive consistency across disparate jurisdictions across a range of national policy priorities.

RECOMMENDATION 5

The Commonwealth to lead the development of a national model procurement framework to promote a best practice, nationally consistent procurement environment for major construction projects in Australia.

We are committed to working with the government and unions to create the settings and incentives that can drive the change that is needed to deliver a sustainable construction workforce and industry, including through the NCIF.

Summary of recommendations

1. Government, unions and industry to work together through the National Construction Industry Forum to promote cultural change within the construction industry.
2. Jobs and Skills Australia to undertake detailed research and policy development around identifying and unlocking pools of displaced labour and creating pathways for transition to adjacent industries.
3. Any employment and workplace relations policy to be developed within a broader context of economic and industry policy, giving due consideration to policy externalities and appropriate offsetting measures.
4. Urgently progress the government's pre-election commitment to an infrastructure procurement policy aimed at delivering on long-term economic, environmental and social objectives.
5. The Commonwealth to lead the development of a model procurement framework to promote a best practice, nationally consistent procurement environment for major construction projects in Australia.

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