

Australian Constructors Association Submission to Economic Reform Roundtable

July 2025

The Australian Constructors Association (ACA) welcomes the opportunity to provide a submission to the Economic Reform Roundtable, highlighting reforms that will boost productivity within the construction industry and across the economy.

Context

Australia has a well-known productivity problem. The Productivity Commission's latest five-year review revealed that Australia is experiencing the worst productivity growth in 60 years.¹ If this productivity decline is not addressed the Commission projects future incomes will be 40 per cent lower and the working week five per cent longer. In short, Australian living standards face a long period of decline if nothing is done.

As the third largest industry in the Australian economy, the construction industry is pivotal to the health of the national economy. It accounts for 7.5 per cent of Australia's GDP² and employs roughly 1.38 million people, 9.5% of the workforce.³ No other Australian industry compares to this level of combined value and job creation. It is therefore no exaggeration to say that improving productivity within the construction industry will have a significant impact on Australia's productivity and wellbeing.

Unfortunately, the construction industry has one of the worst productivity records, with productivity falling by 8 per cent over the period 2001-02 to 2021-22. In 2022, ACA commissioned Oxford Economics Australia to estimate the opportunity cost of construction's poor productivity performance. This report estimated that if construction productivity growth was at least equivalent to the economy-wide average, this would unlock an additional \$56 billion in construction capacity every year.⁴ This would be enough to deliver over 1,000 new schools, 10,000 kilometres of road or 25,000 extra hospital beds with no increase in the workforce.

¹ Productivity Commission, *5-year Productivity Inquiry: Advancing Prosperity Inquiry Report*, 2023, p.1

² Reserve Bank of Australia, *Composition of the Australia Economy Snapshot*, May 2025

³ ABS, *Labour Force Survey, Detailed, February 2025, Jobs and Skills Australia (JSA) trend data*

⁴ Oxford Economics Australia, commissioned research for ACA

Furthermore, closing the construction productivity gap would likely increase national productivity growth materially. All else equal, had construction simply matched the average of other industries, the nation's productivity growth over the last decade would have increased from 5.7 per cent to 9.6 per cent.⁵ This would have restored the nation's productivity performance to levels not seen since the 1990s.

When it comes to the delivery of public infrastructure, one of the primary opportunities for governments to influence construction productivity, the Australian Government is perceived to have limited influence as it is the states and territories that undertake the bulk of infrastructure delivery. However, the Australian Government is a substantial investor in these projects and can influence procurement and delivery through its approach to infrastructure investment.

The Australian Government also plays an important coordination role – with the ability to bring stakeholders together to reach agreement. Two such initiatives that have benefited from this approach, that have the potential to improve productivity, are the Construction Blueprint developed by the National Construction Industry Forum (NCIF) and the development of a National Construction Strategy through the Infrastructure and Transport Senior Officials Committee (ITSOC). We strongly encourage the Australian Government to continue its support of both initiatives.

An area in which the Australian Government has direct influence, and which can profoundly influence construction industry productivity, is industrial relations. ACA understands that the Economic Reform Roundtable will regrettably not include a focus on industrial relations, but its importance to economic activity and productivity simply cannot be ignored. It is the primary reason why many projects are only able to achieve three productive days of working in any given week. Beyond the headline grabbing issues within the construction industry there are a range of areas in which industrial relations can be improved, including more efficient dispute resolution processes and the operation of Work Health and Safety legislation. Productivity needs to be one of the primary pillars within the industrial relations framework going forward.

Recommendations for Reform

1. **Require the use of established national standards/ specifications for the delivery of infrastructure that receives Australian Government funding**

Productivity benefits will come from greater standardisation and consistency. A factor affecting productivity, across many industries, is the variation in standards that must be met across different jurisdictions. The benefits from greater harmonisation and uniformity at a national level must be considered and action taken.

Within the construction industry, the need to comply with multiple sets of regulations, standards and specifications not only across jurisdictions but across delivery agencies within those jurisdictions is a significant impediment to the efficient delivery of infrastructure. This environment has led to fragmentation across the construction industry and the inability to benefit from the scale and repeatability that comes from a common approach.

⁵ Oxford Economics Australia, commissioned research for ACA

Inconsistent standards and specification can also limit the adoption of new and innovative approaches to constructions. Methods of construction that utilise offsite construction of component parts that can be assembled on site need the economies of scale that are enabled through standardisation. This is particularly important when significant investment is required to build this capability – the use of common standards provides the certainty needed for Australia to develop a manufacturing base that can support a more efficient approach to construction.

There are large bodies of work devoted to identifying best practice approaches to standards and specifications for infrastructure. There are also existing national standards developed by bodies such as Austroads and Standards Australia that are adopted, but not universally. Therefore, implementation of this recommendation would not necessarily require the development of a new set of standards but rather require the identification of an existing approach to be adopted.

To avoid these standards becoming an ‘option’ and to encourage broad adoption the Australian Government should require the use of these standards on all projects receiving Australian Government funding.

Greater uniformity and consistency in standards and specification across infrastructure projects increases certainty and repeatability, leading to greater efficiency. It will improve risk identification and management as well as knowledge and understanding of the standards. These are all factors that will not only improve productivity but also manage the cost of delivery.

2. Require the use of standard contract forms or contracting principles when investing in infrastructure

A significant challenge to the productivity of the construction sector is the variation in contract forms used across the industry. A vast amount of time and resources are devoted to understanding and managing the range of contracts used by different clients. The use of consistent and fair contract models that do not require significant legal intervention time after time will have a range of productivity and other benefits.

The Australian Government should adopt a standard and common library of contracts that can be applied with minimal variation in the delivery of infrastructure projects to which it provides funding. A standard suite of contracts could draw on best international practice—such as the NEC suite of contracts—and be supported by a range of guidance materials on key procurement and contract delivery approaches.

A substantial issue for the construction industry, that impacts its financial position and its productivity, is the allocation of risk within contracts. Typically, all the uncertainty and risks are the responsibility of the contractor and, when those risks are realised, they are funded out of the contractor’s already razor thin profits. This practice is transferring all the risks to the contractors under fixed price contracts has led to a deeply unsustainable industry.

Therefore, any suite of contracts that is adopted must be less transactional and more collaborative. Engagement with contractors at the earliest opportunity to discuss projects should be incentivised, allowing greater accuracy in pricing and improved risk mitigation and management planning.

In the absence of introducing standard contract forms, the Australian Government should at least consider the development of best practice contract principles that must be adopted by projects that receive investment from the Australian Government.

If the Australian Government were to take such an approach this could encourage other jurisdictions to consider the benefits of broader adoption, leading to less variation in the contract types and forms used to deliver major infrastructure and a greater productivity improvement.

3. Implement a national value for money assessment framework for infrastructure projects receiving investment from the Australian Government

In the award of contracts for the delivery of infrastructure there has been a tendency to equate value for money with lowest price and the construction industry has responded by competing in a ‘race to the bottom’. This has contributed to the poor financial stability of the construction industry, which is demonstrated by near record levels of insolvency and razor thin margins, particularly within the heavy civil and building sectors of the industry.

This affects productivity as it reduces the ability and incentive for contractors to innovate, to invest in new and better ways of doing things. For Australian construction business cost is the most common barrier to technology adoption.⁶

A procurement approach that genuinely seeks to achieve value for money and is able to clearly define what this means for the client would assist the construction industry to move away from primarily price-based competition. It could enhance financial stability and allow investment in productivity improving measures.

To achieve this, greater clarity is needed in terms of how non-cost outcomes are considered when assessing value for money and also in the transparency of evaluation outcomes. This could be achieved through the establishment and adoption of a national value for money evaluation framework, that clearly indicates how non-cost elements of infrastructure delivery will be assessed as part of tender evaluation.

Such a framework would demonstrate the relative importance of price as part of the evaluation and provide clear guidance to proponents on the outcomes that are valued. This would assist to move the construction industry away from the tendency for contractors seek to win work through demonstrating they can deliver for the lowest cost and towards contracts being awarded to those who can achieve the desired balance between price and delivering the desired outcomes.

Through its direct delivery of infrastructure and its investment in infrastructure delivered by states and territories, the Australian Government can implement this framework – requiring it to be used as part of the procurement process. This will provide the incentive needed to move away from practices that encourage under bidding. As the financial health of the industry improves, this will allow greater investment in innovation, capability and capacity. This stability will give contractors the confidence to make the changes that are required to boost productivity.

⁶ Deloitte and Autodesk, State of Digital Adoption in the Construction Industry 2025, February 2025, p.16

4. Implement and national scheme for the recognition of skills and licensing

Like most developed countries, Australia's population is ageing. The share of Australians aged 65 and over has doubled since 1970—a 'grey march' that will continue inexorably over the coming decades. This structural shortage of labour is a problem for every industry but is particularly acute in construction where there is a heavy reliance on younger, mainly male, workers.

In an environment where it is already difficult to find the skills needed, the state-based systems for the recognition and licensing of skills adds an unnecessary barrier to labour mobility. This has already been recognised through the Australian Government's initiative to work towards a national licensing scheme for electrical trades. This should be expanded to a broader review and reform program that aims to introduce a national scheme for the recognition of skills and professional licensing/ registration.

5. Review Work Health and Safety Model Legislation and its implementation to eliminate misuse and the weaponisation of health and safety

Work Health and Safety regulation is an area that has become increasingly weaponised within the construction industry and it is being used to achieve industrial outcomes that have no relationship to the health and safety of workers. This has a direct impact on productivity as work is halted and sites shut down under the guise of safety. As Work Health and Safety legislation is Model Legislation, which has been largely adopted across the states and territories, there is a role for the Commonwealth to play in assessing its effectiveness and working with all jurisdictions to undertake necessary reforms.

Health and Safety Representatives (HSRs), Health and Safety Committees (HSCs) and union delegates are able to exercise considerable power and influence across construction projects. Much of this power is provided via the provisions of work health and safety legislation. Whilst these powers are intended to ensure the adequate representation of employees' health and safety interests, in the construction industry, this is often misused. This behaviour is allowed to occur almost unchecked by regulators due to insufficient protections in the Work Health and Safety regulatory framework, or lack of resources and support for health and safety regulators.

The Australian Government should initiate a review of the existing model Work Health and Safety laws to assess what changes are needed to eliminate the ability for parties to improperly use health and safety to achieve industrial outcomes. It should also work with jurisdictions to ensure that resourcing and support for health and safety regulatory bodies enables adequate enforcement of the Work Health and Safety regime.

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