Australian Procurement and Construction Council - National Forum - "The Future Construction Procurement Environment For Government"

A key resolution from the Construction Ministers' Meeting, with representatives from the Commonwealth, State and Territory Governments, held on 18 October 1996 was the acknowledgment that governments adopt a united approach in order to provide a nationally consistent vision and support for the construction industry.

Ministers agreed that the shared vision needs comprehensive input and the perceptions of responsible stakeholder groups within the industry itself, plus well considered contributions and leadership shown by the governments of Australia, and by other client groups.

Ministers asked the National Public Works Council ("NPWC"), which has recently amalgamated with the CEO's Forum on Common Services, to form the Australian Procurement and Construction Council ("APCC"), to work with appropriate industry forums to develop a national approach relating to the structure of the industry.

Ministers also placed a number of items on the agenda for their next meeting later this year that might be raised in this forum. These include long term contracts, environment, training, OHS&R and information technology. In addition, further issues associated with security of payment, such as front end payments, capitalisation and centralised financial assessment.

The APCC has organised a National Construction Industry Forum:

On	Friday, 30 May 1997
Venue	NSW Department of Public Works & Services Conference Room Level 4, McKell Building 2-24 Rawson Place, Sydney NSW 2000
Time	9.00am - 5.00pm

The APCC has organised the Forum in its capacity as representing the Commonwealth, State and Territory Government public works and procurement agencies. Invitations have been extended to significant industry representatives, from all construction industry sectors, in addition to national industry associations and others.

THE AUSTRALIAN CONSTRUCTION INDUSTRY

The construction industry is an important sector of the Australian economy both in terms of its direct contribution to the national economy and its influence on other sectors of the economy. In peak periods the industry produces almost 7% of GDP and employs just under 5% of the working age population. It is one of the nation's largest industries, with a $40 billion turnover and more than 500,000 employees.

The industry's performance, therefore, has a significant impact on the economy, as the wider impacts of construction industry productivity are felt across almost all industry sectors and on exports. This stems largely from the fact that construction industry outputs are translated to input costs for other sectors. Consequently, the health of the industry has a considerable influence upon other sectors of the economy.

The industry is involved in all aspects of the provision, operation and maintenance of the nation's diverse infrastructure through three broad areas of activity:

- *residential building* (houses, apartments etc);
- *non-residential building* (offices, shops, hotels, Government facilities etc);
- *engineering construction* (roads, bridges, water and sewerage etc).

In dollar terms, annual national industry output is expected to consistently exceed $45 billion in seven of the next nine years to 2005. The importance of the construction industry, both in economic and social terms, and the influence it has on the costs and efficiency with which government services are delivered is well recognised. Governments have a keen interest in facilitating a development strategy that can be implemented by a majority of industry stakeholders.

OPPORTUNITIES AND CHALLENGES

In New South Wales alone the total level of industry activity is projected to peak at around $18 billion in 1998/99, or around 40% of national industry output, and up to $2 billion above the last industry peak.

The timing and level of these projections are consistent with historic trends and the increasing peak trend expected in overall economic growth. Should industry activity approach the forecast level it will create many opportunities and challenges for the public and private sectors.

The reform programs that have been initiated by governments throughout Australia have engendered considerable change. However, pressures presented by substantial increases in activity could negate benefits arising from the opportunity this change presents and may test the industry's commitment to the development programs governments currently support. Australia's challenge is to demonstrate we can produce high quality, value-for-money outcomes and timely and effective response to changes in demand.

When the demand and capacity of the construction industry is out of balance prices are disproportionately affected. Emerging trends are consistent with the substantial price movements that have historically occurred between peak and trough.

Clearly a collaborative effort is required by all stakeholders, where governments provide both the leadership and the supporting framework within which industry development can occur, thus increasing capacity to manage demand without adverse effects.

CURRENT ENVIRONMENT

Industry Structure

The majority of construction industry enterprises engaged in contracting and subcontracting are small, having less than twenty employees.

A relevant *Australian Bureau of Statistics* ("ABS") survey showed that apart from large firms that are active both in the Australian and international markets, the industry remains substantially craft-based in that:

- 65% of all enterprises in the industry employ less than two people;
- 88% of enterprises have turnovers of less than $500,000;
- less than 1% of enterprises employ more than 50 people;
- only 1.3% of enterprises have a turnover of over $20 million a year or more.

Whilst its structure makes the nature of the industry highly competitive, the less satisfactory characteristics which emerge include:

- a sometimes adversarial culture;
- trend towards under-capitalisation;
- frequently low margins;
- less emphasis on investment in research and development of new processes; also, the use of new technologies; and
- a vulnerable short-term focus in terms of relationship and planning.

Collectively, these factors can cause a fragmented approach to the way the industry does business and how projects are undertaken.

Industry Processes

Many industry behaviours reflect a bias toward continued use of the traditional approach to the building process, that is one which is broadly based on "craft" practices. This results in a considerable amount of work being organised into small, almost isolated packages. The outcome can result in a narrow approach in terms of design and construction, where an array of separate small suppliers are used on a project-by-project basis.

There is now increasing recognition that the demands of the market are such that the old approach and reliance on informal, structured ways of doing business might fail to match the changing needs of the market and clients. The divisions between design and construction impose both efficiency barriers on the industry's processes and encourage the pursuit of singular interests.

Industry's Environmental Performance

The industry must develop a reputation for sound environmental performance, as its actual delivery process can have a major impact on the environment. For example, as much as 40% of the volume of landfill in Sydney is made up of construction waste. This suggests poor use of materials. Better management practices could minimise the harmful impacts which occur through poor waste disposal, misuse of resources, the discharge of pollutants and lack of integration of environmental issues into the planning and management of the construction process.

Industry Capabilities

The construction industry in Australia is essentially a multi-tiered hierarchy of principals, agents, contractors, sub-contractors and suppliers. It is characterised by having quite low capital backing and a heavy reliance on cash-flows to sustain business. Players sometimes lack the skill in business finance and management essential to survive. Substantial improvement in the industry is dependant upon high quality continuous learning programs that meet the needs of individual enterprises and teams.

PROPOSAL

Governments wish to work with industry stakeholders to identify a picture of where the industry might ideally be placed in the early years of next century, taking into account distortions caused by such undertakings as the Olympic Games and various major resource projects. Together, industry and government can grasp the potential offered both now and in the years ahead in a vision for the construction industry which harnesses for all Australians the most positive results.

All jurisdictions have reform programs for the construction industry underway. To date, there have been some positive outcomes.

What has been lacking is a common vision for the industry. Both public and private sectors of the construction industry see that strategies must be developed that can be implemented by a substantial number of stakeholders that will advance construction industry development nationally.

The Construction Industry Development Agency ("CIDA"), raised awareness throughout the industry of the need for reform. It also focussed on the role leadership provided in achieving a shared and sustainable vision for the industry.

The APCC sees that the opportunity now exists for industry to work with governments to set a clear agenda for change and improvement, whilst allowing flexibility in a vision which will contribute to our national wellbeing.

It wishes to work with the construction industry to develop a national approach relating to the structure of the industry including its capacity to meet the changing needs of the public sector.

The contribution of private industries and individuals is critical to the consultative process and facilitated sessions at the Forum will provide such a vehicle. It seeks comprehensive input and the perceptions of responsible stakeholder groups within the industry itself, as well as considered contributions and direction from the industry's major client groups, the governments of Australia, and other interested parties.

A national vision, supported by measurable targets and embodying principles all jurisdictions can promote, will form a basis for construction industry reform programs which will also achieve the consistent approach industry has been seeking. A co-ordinated approach will accelerate and strengthen the reform program both nationally and at a jurisdictional level.

The Forum will address opportunities and challenges facing the industry in public sector procurement. It will also provide an opportunity for participants to receive an overview of resolutions and developments arising from the October 1996 Construction Ministers' meeting.

Facilitation will identify issues, priorities and performance measures for a shared and sustainable vision for the industry including:

- long term contracts;
- training and skills retention;
- information technology;
- OHS&R;
- pre-qualification for public sector procurement;
- contracting out government services; and
- improved access for government markets for small to medium enterprises.

It will also guide governments in their commitment to continuous improvement in further initiatives to address security of payment, specifically front end payments, capitalisation and centralised financial assessment.

An industry that is committed to working smarter or more cleverly increases its long term viability. Re-engineering business and project procurement processes, more effective application of technology in design, planning, project management and construction. Improved communication between all parties, and innovative use of information technologies and electronic business practices can achieve improved sustainability for the industry.

In order to address skills shortages and improve training opportunities the Forum can consider ways in which governments might assist employers to develop and access training plans that address the needs of their individual enterprise and their employees. If the focus is on competency based training new, modified courses will be needed to bring skills up-to-date and address shortages in specific occupations. Construction industry employers can consider options such as group training schemes.

Governments believe that it is increasingly important for the construction industry to take advantage of advancing technologies and the Forum provides an opportunity to identify how this can be best achieved.

Improved communication between parties will enhance the management of risk and see a steady reduction in the incidence of disputes, benefiting all parties. Participants may wish to address other pertinent topics such as pre-qualification criteria, long-term contracting, security of payment and industrial relations.

Australia's challenge is to demonstrate we can produce high quality, value-for-money, environmentally responsible outcomes. The facilitated Forum is directed specifically to the construction industry to foster a closer and more effective partnership between stakeholders in the industry which can be reflected in the development of government policies.

Construction Ministers believe input from all industry stakeholders to the Forum is critical to the development of a joint vision which will ensure the long term viability of the construction industry.