



Victorian Civil Construction Industry Alliance

Reforming Public Construction
Policy - May 2018

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The Alliance Supports reforming public civil construction by increasing efficiency and reducing costs of public civil infrastructure renewal and construction

Recommendation

That the Victorian Civil Construction Industry Alliance (the Alliance) and its members are actively engaged by the three tiers of Government, its departments and agencies, in formulating policies and procurement reform processes to optimise efficiency and cost reductions of public civil infrastructure construction and asset renewal to achieve positive outcomes for both Victoria and the civil construction industry.

Executive Summary

The Alliance seeks reform in current public procurement practices and processes, including better planning of projects, improving industry feedback mechanisms and participation in government tenders and lifting government procurement capability.

While the Alliance supports the State Government's objective to reform public construction, as outlined in the Treasurer's paper 'Reforming Public Construction' (November 2016), particularly regarding civil infrastructure, we encourage the extension of these initiatives to the management and renewal of existing public civil infrastructure assets.

The Alliance notes the acknowledgement in the Treasurer's report that industry is a vital partner in delivering world class infrastructure in Victoria. This vital partnership extends to the management and renewal of public civil infrastructure assets across the state. Engaging effectively with the Alliance and its members in the course of reforming public civil infrastructure processes to efficiently construct, manage and renew the State's public assets will achieve the best overall outcomes for both Victoria and the civil construction industry.

The essential starting point for all civil infrastructure projects is that the final design must be fit for purpose, reflect innovation opportunities, appropriately share project risks and consultation with potential contractors occurs throughout the procurement process.

Priority areas for the Alliance:

1. Optimising the management and renewal of the state's public civil infrastructure assets.
2. Reforming public infrastructure procurement processes so there is consistency and standardisation of procurement systems, processes and their application across all levels of government.
3. Ensuring that civil infrastructure project designs are to a standard that will allow tendering outcomes and construction to deliver value for money.
4. Develop and implement procurement training programs for public and private sector professionals to ensure adequate skills and capability levels for all civil infrastructure procurement staff.
5. Ensuring a sustainable and competitive supply of quarried construction materials to underpin the delivery of affordable civil infrastructure.
6. Addressing red-tape issues which impede the efficient delivery of civil infrastructure projects.
7. Building "capacity and capability" in civil construction to meet and deliver the critical major infrastructure needs in this State.

The Alliance supports reforming public civil construction by increasing efficiency and reducing costs of public civil infrastructure renewal and construction.

The Alliance supports reforms to public construction, relating to civil infrastructure that increases efficiency and reduces public civil infrastructure costs. The acknowledgement in the Department of Treasury and Finance Report that "*The private sector is a vital partner in delivering world class infrastructure in Victoria*" is welcomed.

The Alliance represents many Small to Medium Enterprises through their respective industry associations. These Small to Medium Enterprises are major economic drivers in their local communities, providing direct investment and employment in those communities, especially in regional Victoria and are a large part of the private sector referred to by the Treasurer.

Civil infrastructure projects drive economic growth and employment and facilitate other activities in the Victorian economy.

Victoria has a large pipeline of civil infrastructure construction projects and a growing inventory of civil infrastructure assets that require management and renewal, to avoid full replacement should they fail.

The Alliance has identified seven priority areas that it would welcome the opportunity to work with the State Government to deliver benefit and value for money to all Victorians.



 **Optimising the management and renewal of the State's public civil infrastructure assets.**

The Victorian Auditor-General's report *Maintaining State-Controlled Roadways* (June 2017) highlights the cost to the community and State Government when roads and the surface of roads are in poor condition. The report examined whether the State's road network is being effectively and efficiently maintained.

The report identified that asset management and renewal has been limited and data indicates that the road network has deteriorated. This has created an increasing backlog and lower service levels, which reduce transport efficiency and increase safety risks to road users.

The delivery of the majority of the State's road maintenance and renewal programs is through civil contractors who are members of the Alliance.

The Alliance is keen to work with the State Government and VicRoads in the implementation of the Victorian Auditor-General's five recommendations for VicRoads to improve the condition of the State's road network and it has a significant challenge ahead given the size of the road network it must manage, and the declining funding it receives to maintain it.



Reforming public infrastructure procurement processes so there is consistency and standardisation of procurement systems, processes and their application across all levels of government

The need for and benefits to all levels of government to achieve best practice procurement has been known for some time. It has been the subject of several reports which include:

- Department of Planning and Community Development – Local Government Procurement Strategy (Ernst & Young, September 2008)

There were eight key findings in the report. Three of the key findings identified there was little evidence of coordinated procurement of vendor services, an assessment of sector procurement capability was low/medium only and the adoption of better procurement practices had the potential to yield annual savings of 7-13%.

The State Government and service authorities operate different procurement models to local government. However, it is considered highly likely that similar annual savings are achievable through reform of the State Government and service authority procurement processes. The consistent application of standardised systems and processes across all levels and departments will yield efficiencies, reduce cost and deliver better value for money.

- Achieving Civil Infrastructure Procurement Best Practice – a study by Civil Contractor’s Federation in conjunction with VicRoads (Aurecon November 2009)

The key findings of this study identified ten procurement delivery support tools to overcome existing procurement constraints, create efficiencies and consolidate best practice. The recommended tools are:

- (i) Forward planning
- (ii) Pre-qualification criteria
- (iii) Guide to the selection of delivery systems and use of standardised contracts
- (iv) Risk registers
- (v) Value for money checks
- (vi) Use of local contractors and labour
- (vii) Jointly established training programs
- (viii) Stage issue resolution processes
- (ix) Project reviews
- (x) Strengthened sector Collaboration Forum

- Strong Foundations for Sustainable Local Infrastructure – connecting communities, projects, finance and funds (Ernst & Young June 2016)

This report was commissioned by the Department of Regional Australia, Arts and Sport to review the prioritisation and financing of local infrastructure. Some of the report recommendations are arguably applicable to State Government civil infrastructure. The development and delivery of capacity building programs (Recommendation 4), development of major project procurement guidance (Recommendation 9) and the rationalisation of different regional frameworks (Recommendation 11) are relevant. The report recommendations aim to create value through the procurement process that will achieve efficiencies through alternative delivery models including where project and risk transfer to private sector partners is involved.

The Alliance also made a submission to the Essential Services Commission (ESC) on Local Government – Rates Capping and Variation Framework in May 2015. The submission identified the challenges and opportunities that the civil infrastructure sector face with the introduction of Local Government rates capping and we endorse the recommendations made to the ESC in this submission to optimise the positive outcomes that rates capping may bring to Alliance members and Victorian communities.

Ensuring that civil infrastructure project designs are to standard that will allow tendering outcomes and construction to deliver value for money outcomes.

Traditional construct only procurement continues to be widely used where there are lower construction risks. Typically, the State Government, agency or service authority (the client) directly appoints a design consultant, thereby leaving the risks associated with the design with the client.

Awarding the construction contract does not occur until design completion. There is no input from the civil construction contractor regarding constructability, life cycle management and potential for innovation. The opportunities often missed in this and other procurement methods are cited in the recommendations of the Productivity Commission – Public Infrastructure Inquiry Report (July 2014). There are seven recommendations in the report that highlight the importance of the design phase in civil construction projects.

Develop and implement procurement training programs for public and private sector professionals to ensure adequate skills, capability and competency levels for all staff associated with civil infrastructure procurement.

Two of the reports cited in item 1 above reference the need to improve the procurement capability of officers involved in the procurement process. This applies equally to all tiers of government, service authorities (public sector) and civil infrastructure contractors (private sector).

The outcomes of the procurement function are reliant on equal capability across the board. Access to and participation in jointly established training programs will achieve this outcome to mutual benefit of the public and private sector procurement officers, and the community.

Procurement training programs available interstate could be adapted to the Victorian environment. The training programs would broaden the skills and capability across public and private sectors alike.

Ensuring a sustainable and competitive supply of construction materials to underpin the delivery of affordable civil infrastructure.

The Department Economic Development, Jobs, Transport and Resources completed the 'Helping Victoria Grow: Extractive Resources in Victoria Demand and Supply Study to 2050' in July 2016. The Study found that Victoria's construction materials demand would almost double by 2050. Of this demand, the report found that 34% of the materials will need to come from new quarries that have not yet been planned.

Concurring, Alliance members are already facing shortages of key construction materials as Victoria faces a welcome doubling of infrastructure growth by the government and the highest population in the nation. Add to this the findings from the November 2017 Commissioner for Better Regulation's report 'Getting the Groundwork Right: Better Regulation of Mines and Quarries' where lengthy approvals times are further strangling supply and Victoria faces escalating cost pressures.

The Alliance welcomes the recommendations of these studies and the work of DEDJTR and the Extractive Industry Taskforce and seeks urgent implementation of the recommendations and actions in the government's 'Helping Victoria Grow: Extractive Resources Strategy'.

With construction materials contributing an estimated 32% of the cost of infrastructure, Victoria is well placed to secure its competitive advantage by delivering a competitive supply of construction materials to meet demand.

Going forward, a sustainable and competitive supply of quarry materials is the foundation for the delivery of affordable infrastructure in Victoria and to ensure the community gets value for every infrastructure dollar spent.



 **Addressing red-tape issues which impede the efficient delivery of civil infrastructure projects.**

The Alliance endorses the State Government's appointment of a Red Tape Commissioner on 22 September 2015, to contribute to achieving the State Government's 25% red tape reduction target. A reduction in red tape associated with civil infrastructure projects has the potential to deliver significant benefits and support a competitive business and investment environment in the sector.

The Alliance seeks the opportunity to work with the State Government to identify and remove barriers to the efficient delivery of infrastructure projects. A schedule of meetings between the Red Tape Commissioner and Alliance members could assist with the identification of red tape issues impacting each group, the magnitude of the impact, options to remove them and the potential benefits that would follow.

 **Building “capacity and capability” in civil construction to meet and deliver the critical major infrastructure needs in this State.**

To deliver an ambitious infrastructure investment program over the next five years, Victoria cannot be complacent with respect to capacity and capability risks. While civil construction cost escalation is relatively subdued, it is anticipated to accelerate in coming years as civil construction activity rises nationally and supply chain risks are exposed.

A Victorian Government, Education and Training Report titled Industry Sector Skills Profile – Construction 2016, provides valuable information indicating future workforce needs for the Construction Sector.

The construction industry sector currently employs more than 282,600 workers (as of the February 2016 quarter), accounting for 9.3% of all workers in Victoria. Employment in the construction industry sector increased by approximately 70,800 persons (more than 33%) over the 10 years to February 2016. Employment in the construction industry is forecast to grow by approximately 10% over the next 5 years to June 2021, an increase of approximately 24,500 workers. Over the longer term, employment growth is forecast to continue this upward trend, reaching total employment of around 344,700 workers in 2031. This represents a total growth of 41% from 2016 and an addition of nearly 100,200 workers.

The construction industry workforce is younger than the overall population. Based on ABS Census data, 73% of workers are aged between 20 and 49 years old in 2011. Conversely, only 23% of construction workers was aged 50 years or older as at 2011. Retirement demand within some key construction occupations is expected to grow strongly over the next five years. Ensuring adequate supply of new entrants to these construction occupations may pose a challenge for industry.

A Partnership Approach:

The findings and recommendations of the Productivity Commission Public Infrastructure Inquiry Report (released July 2014) highlighted that better institutional and governance arrangements are crucial. Finding 7.1 was “Institutional and governance arrangements for the provision of much of Australia’s public infrastructure are deficient and are a major contributor to unsatisfactory outcomes.”

It is timely to utilise the relationship between the civil construction industry, the State Government, its agencies and service authorities to reform public civil infrastructure construction and renewal to enhance the outcomes being delivered. To help ensure maximum value for the State Government’s infrastructure dollars, the Alliance is offering to work in partnership with State Government to drive these much needed reforms.

Overall, the Alliance believes there is strong opportunity to develop a stronger partnership between the State Government and the private sector stakeholders to meet the community’s expectations and deliver better value for money.

THE ALLIANCE:

Australian Asphalt Pavement Association
Association of Land Development Engineers
Cement, Concrete & Aggregates Australia
Civil Contractors Federation
Construction & Mining Equipment Industry Group
Construction Material Processors Association
Demolition Contractors Association of Victoria
Dial Before You Dig
Engineers Australia
Institute of Public Works Engineering Australasia
Institute of Quarrying Australia
Municipal Works Officers Association of Victoria
Professionals Australia
Roadmarking Industry Association of Victoria
The Crane Industry Council of Australia
Traffic Management Industry Association of Victoria
Victorian Transport Association
Roads Australia
Department of Environment, Land, Water and Planning (Observer)
VicRoads (Observer)
Bob Seiffert - Immediate Past President

About the Alliance:

The Alliance was established in February 2005 for the purpose of bringing together those industry groups involved in the delivery and maintenance of the civil infrastructure in Victoria. The Alliance currently comprises representatives of 24 industry groups/organisations involved in the civil construction sector.

Accordingly, due to its breadth of membership, the Alliance provides a vehicle by which the State Government can effectively engage with the civil construction sector aimed at achieving the efficient delivery of the Government's civil infrastructure program.

Apart from providing a collegiate approach to achieving positive outcomes for its members, the key objectives of the Alliance include:

- to increase the capacity of the civil construction sector to respond to or influence Government policy;
- to assist in the dissemination to Alliance members, key Government and industry information relating to the sector;
- to provide a vehicle to cooperate with other relevant alliances and employer groups;
- to exchange information on best practice initiatives pursued by Alliance members;
- to provide access to the range of specialist skills and networking opportunities available within the Alliance, especially for the smaller interest groups and so thereby strengthen the sector generally; and
- especially, to build collaboration aimed at achieving common goals for the sector, for example, driving the infrastructure dollar further, skilling the sector, etc.

As identified through the Ernst & Young Report commissioned by the last Labor Government, and supported by subsequent inquiries by VCEC and the Auditor General, there are considerable opportunities for improvement in the performance of the civil construction sector, particularly in relation to the interface between the procurers of civil infrastructure and all the various components in the delivery supply chain. Given its membership, the Alliance can assist in this regard.

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Call: (03) 9588 7600

Fax: (03) 9588 7601

Email: ccfvic@ccfvic.com.au

www.vccia.com.au