



TE TAI ŌHANGA
THE TREASURY

INFRASTRUCTURE TRANSACTIONS UNIT

Civil Contractors New Zealand Construction Survey 2019

The Infrastructure Transactions Unit (ITU), within the New Zealand Treasury, acknowledges the vital role that Civil Contractors play in the development of our nation's infrastructure. The Civil Contractors Construction Survey Report provides important insights into current issues and initiatives most likely to impact on industry success. We welcome the opportunity to participate in the discussion; identifying opportunities for improvement in the delivery of quality infrastructure assets and services vital to New Zealand's economic and social wellbeing.

The role of the new Infrastructure Commission – Te Waihanga

The ITU is due to transfer to the New Zealand Infrastructure Commission - Te Waihanga later this year. The role of the new Commission is to ensure that New Zealand gets the quality infrastructure¹ investment needed to improve New Zealand's long-term economic performance and social wellbeing. This includes understanding the state of industry, its workforce challenges, opportunities for innovation, and the need for improved procurement practices.

Clearer Government Pipeline

A key focus for the new Commission will be the publication of an infrastructure pipeline. The Survey highlights the importance of a clear pipeline of Government and local government work with 77% of respondents identifying this initiative as having a positive impact. A more visible and certain pipeline gives industry the confidence to invest in much needed technology and workforce. This is crucial to the delivery of New Zealand's infrastructure needs.

The ITU published a prototype infrastructure pipeline in May 2019. Further central and local government investment will be included in an updated pipeline for publication in October. The Survey identifies that expected investment in water infrastructure will have a positive impact. The ITU will work with local government to capture and ensure that the pipeline reflects these projects.

Skills and labour shortages

The Survey highlights the recruitment of skilled staff as one of the biggest challenges. New Zealand is competing with a strong pipeline of infrastructure projects in Australia. Industry capability and capacity is an issue that is concerning to the ITU and public sector clients.

Through our market engagement and project advisory support, the ITU is acutely aware of how skills and labour shortages affect infrastructure delivery. The Survey's statistics regarding the response to mental and wellbeing of staff are also concerning. One of the key outcomes of the Construction Sector Accord, alongside job security and opportunities to

¹ The ITU/Commission's reference to infrastructure includes all physical assets (i.e. vertical buildings and horizontal network infrastructure)

upskill, is to ensure that there is an environment that supports thriving mental health and wellbeing.

New Government Procurement Rules to take effect from 1 October, include a requirement that a Procuring Agency must consider and incorporate where appropriate *Broader Outcomes* when purchasing works. This includes increasing the size and skill level of the domestic construction workforce. The ITU supports and expects to see this focus in the infrastructure business cases it reviews as well as in procurement plans.

Another important change is the focus on *Public Value* rather than lowest price. This means getting the best possible outcome – a combination of quality, cost and the securing of *Broader Outcomes*. Low-price procurement practices drive lower margins, which in turn reduces investment in training and development.

The ITU recently examined issues associated with the application of NZ Standard Conditions of Contract. This work highlighted issues in relation to infrastructure procurement capability within the sector (public and private). Construction is not the core business of public sector agencies. There is a lack of knowledge and experience at the executive level and in staff managing procurement and contracts.

Public sector agencies rely on expert consultants (technical experts, designers, project managers) to provide robust, timely and accurate advice and documentation. Unfortunately, the public sector is not always well served. It is the duty of consultants to advise clearly and well in advance of the required programme, to ensure that documentation released for tender and then for construction is high quality and reflects what is required to meet project outcomes.

The Construction Sector Accord and procurement

The Survey suggests that the introduction of the Construction Sector Accord is expected to have an impact in the next three years – 47% of respondents identified it as having a positive impact.

The Accord is a catalyst for change and the ITU's work is included amongst the Accord's initiatives. We are pleased to be included on the Accord Steering Group responsible for leading the change.

The Accord has highlighted challenges such as low productivity, skills and labour shortages, health and safety issues, lack of innovation and adoption of new technologies, business vulnerability, unbalanced risk allocation, lack of clear and consistently applied regulations, and limited knowledge sharing.

The sector is currently performing below the level required to meet the increasing demand for quality infrastructure and must undergo significant transformation, including in its culture and behaviour, to sustainably and successfully meet the growing demand. Leadership from government and industry in partnership is required to address these challenges.

The ITU's work includes examining various procurement issues and developing guidelines for public sector organisations. The ITU is using this work to inform its role in the Accord and input to MBIE's revised Construction Procurement Guidelines. The revised Government Procurement Rules that come into effect in October 2019 require all government agencies to comply with ITU guidance for infrastructure projects with a total cost of ownership of more than \$50 million.

Importantly, the ITU has identified that opportunities for improvement include better understanding of the value of risk transfer in the preparation of business cases and the selection of appropriate procurement and commercial approaches. This includes ensuring that public sector leaders of infrastructure projects are better informed as to the impact of risk transfer, including the role of design teams in the development of reference projects for budget purposes.

An infrastructure project is only successful if everyone is successful. A healthy construction market is in the public's best interest to ensure that capacity will continue to be available to meet New Zealand's needs. Clearly, this is a sentiment that is echoed by the Accord, but there is also a need for the sector as a whole to provide better information as to fair margins and the impact of risk transfer, alongside expectations of increased investment in workforce capability, greater innovation and increased productivity.