Introduction

Fresh approaches with new policies are urgently required to meet the challenges of growth facing the construction industry and our built environment. Without implementation of a focused reform programme, this industry – a foundation of the New Zealand economy which supports every facet of society, from housing, schools and hospitals to infrastructure – will not deliver the quality performance and efficiency that society demands.

Investing in our built environment (worth eight times more than the value of the New Zealand Stock Exchange) through a partnership with the industry to promote transformation of work practices, adoption of new technologies, skills training and recruitment, and more efficient procurement practices must be a national priority.

The construction industry (design to delivery) will spend more than $300 billion over the next decade, and it employs 9% of the New Zealand workforce. But its productivity is lagging. McKinsey in their ‘Reinventing Construction: A Route to Higher Productivity’ report (February 2017) identified that construction sector productivity improvement globally had fallen well behind most other sectors, and there was scope to improve performance by 50% to 60%. There are easy wins for New Zealand if we simply implement some of the better practices from countries where the sector is more advanced.

Over the next ten years New Zealand will have more than $300 billion of housing, building and infrastructure needs.

Policies identified by McKinsey to raise productivity include improving procurement management, processes and the contractual framework. Looking at these issues, along with a reskilling of the workforce, greater use of technology and reshaping of regulation, would be a practical starting point.

A 5% improvement in the construction sector (procurement, design, construction) productivity in New Zealand would deliver savings every year going forward of $1.5 billion. This saving could fund one extra Waterview Tunnel project every year or 20 new Greymouth Hospital buildings. A very significant productivity gain is available and it can be achieved without additional government funding.

Our immediate issues are that New Zealand massively underinvests in workforce training at all levels, and we are locked into a dated, adversarial procurement style which delivers cheap buildings with high maintenance costs (e.g. leaky schools) and which discourages innovation. Moreover, there are problems with imported product quality assurance, with licensing of critical trades and with regulation.

The sector needs better government leadership, to give it confidence and certainty. This includes new thinking in our education pathways to foster trade skills development, reform of occupational licensing to make it nimble in adapting to identified needs, and procurement models that share risk more fairly to those best suited to deal with it.

The industry is committed to transformation through use of modern technologies and better work practices. But it urgently needs high-level government commitment to work in partnership on regulatory reform. The alignment and support of various government agencies is essential. This would be best achieved by the appointment of a senior Construction and Infrastructure Minister who could bring leadership and a new focus to this critical portfolio.

We call on all New Zealanders, including the Government, to contribute to help meet this challenge – the construction sector already contributes 6% to the GDP and provides the essential facilities that all of our futures depend upon.
Construction is New Zealand’s powerhouse and offers huge opportunity

The construction sector’s contribution to the New Zealand economy is the same as the whole of the Waikato region (‘Valuing Construction in the NZ Economy’, PWC 2016). New Zealand is in a building industry boom which is driven by a growing population, a dynamic economy and a regulatory environment such as the Auckland Unitary Plan which provides for an additional 422,000 residential dwellings. But it is also so much more than that.

Construction is the fifth largest sector by employment (235,300 FTEs) and is a major generator of NZ economic growth.

Maintaining growth and meeting the demand is where New Zealand’s future opportunities and challenges lie. This paper sets out what is needed to improve the productivity and performance of the construction industry, and what we need to do to address structural barriers in order to better sustain the sector’s long-term growth.

There are challenges

Challenges to achieving sustained capability and productivity for the construction industry include a lack of specialisation and too many small firms.

There needs to be scale in construction projects so that the industry, its supply chain, and manufacturing base in residential building are better geared to mass supply.

Large residential development opportunities needed in Auckland can only be met if a production-line approach is introduced, which will also lower cost.

Delivering at scale

The construction sector is adapting to meet the demand challenge by finding ways to deliver scale for intensive housing. Much attention is being given to fresh design thinking for urban landscapes, incorporating medium- and high-density dwellings. Improvement in productivity and quality performance are high priorities for the sector.

Reviewing the costs and number of regulations – for example, to streamline consenting processes under the Resource Management Act and rationalise the number of Building Consent Authorities, would make a huge difference.

New Zealand’s population growth (estimates suggest it will peak at around 5.5 million in 2040) will continue to place pressures on the need for construction and infrastructure. We need to have a less bespoke building culture and take active steps to introduce scale into the sector. This will require leadership, advocacy from a political champion and long-term strategic planning.
Employment and diversity

One out of every five new jobs (26,000 new jobs per annum) now comes through the construction industry.

Many roles in the sector now require higher-skilled workers with post-school qualifications.

Over the decade ending March 2015, there has been a 45% increase in the sector’s female workforce, or nearly 6,000 roles.

Labour demand in construction-related occupations is forecast to increase by 11%, or 56,000 people, by 2022.

That includes jobs for higher-skilled roles such as construction project managers, civil engineering professionals, and architectural, building and surveying technicians. Not surprisingly, the construction sector has the highest percentage of workers with a post-school qualification (out of 19 industries) as their highest level of qualification.

Crucially, we also need to get more students to take construction-related higher education courses and apply for jobs in the sector – all of this requires coordination between the public and private sectors. We should also not forget that to meet the new jobs the sector needs, the Government will need to increase the labour supply through immigration and training programmes. This may require changes and creative approaches to policy settings to increase labour supply.

Lift in productivity

Improved performance and productivity are vital to meet the pipeline of work to 2022. Poor labour productivity can be addressed by raising skill levels of workers and encouraging more students into higher education courses for the construction sector.

The low rate of productivity is exacerbated by issues like the volatile and cyclical nature of the sector, which reduces the average tenure of workers, creates uncertainty for businesses, and discourages investment in additional capabilities. Small construction companies typically lack resources to invest. This has resulted in a split of housing providers between very small, typically one- or two-person companies doing high-quality bespoke housing, and group home providers, often franchise operators, whose focus is on medium-scale supply utilising contract builders who work to tight margins. More certainty of ongoing demand would encourage development of scale, improvements in site supervision and overall project management. Scale and specialisation are needed to boost productivity and encourage investment for growth.

For every lift in labour productivity there is an annual saving of $1.5 BILLION

That’s equivalent to funding a project like the Waterview Tunnel

Solutions

Contracts and procurement

We have to change our approach to contracts and procurement in the construction sector.

Unfortunately this is a complex issue, as a drive for low-cost procurement results in poor design and poor project outcomes.

The construction industry needs to discuss with the Government how risk is allocated, to whom and why. Currently, risk and who should take it is not adequately discussed at the start of the procurement process and therefore many contracts end up with a totally unbalanced allocation of risk. This acts as a powerful brake to innovative development.

The procurement process needs to be streamlined and standard contracts used so that additional time and cost is avoided. One solution is for Government to adopt the Ministry of Business, Innovation and Employment’s (MBIE) procurement guidelines.

Flexibility in government procurement approaches, particularly more integration between design and build, would provide flexibility for firms to undertake innovation in their approach and produce better project outcomes. In addition, the Government could encourage economies of scale in residential development through aggregation of separate Housing New Zealand Corporation contracts. A published five-year pipeline of future projects that is regularly updated will give the industry the confidence to invest at scale, and lift productivity and quality.
Construction needs a government champion

A big step forward will be prioritising the importance of the construction industry by assigning a new senior Minister of Construction and Infrastructure to champion the sector and bring fresh ideas and enthusiasm.

This would be signalled through a linkage of the construction and infrastructure portfolios. We cannot afford for the construction sector to be marginalised and have responsibility spread across various ministers and split across an already overburdened department, MBIE. A dedicated senior Minister of Construction and Infrastructure will send a strong signal and unite the sector by maximising the resources we already have.

There is no silver bullet in looking to offshore conglomerates to meet capacity constraints. They rarely bring more than project management skills and look to local labour which would, in turn, exacerbate the skills shortages already apparent.

The New Zealand Thirty-Year Infrastructure plan is a step in the right direction toward moving away from the short-term, ‘boom or bust’ approach that has dominated the construction sector in past years. A more collaborative, integrated approach is needed where all parties are on the same page, making better-informed decisions and ensuring that the rationale between ROI, economic goals and whole-of-life costs are aligned.

Raising productivity involves a multi-pronged approach. New Zealand’s construction needs are significant. A coordinated, integrated approach that is part of a long-term strategic plan is required. This will surpass successive administrations, and so we need a vision that is about constructing New Zealand’s future. This is the choice our next Government will need to make when it starts assigning portfolios and prioritising where to direct resources for the best outcomes.

Construction is a priority, because it will provide direct benefits for every part of New Zealand, for generations to come.

Who we are

The Construction Strategy Group

The Construction Strategy Group was formed in 2010 to provide leadership and strategic direction to grow a productive, value-driven professional construction industry. The Construction Strategy Group comprises high-level executives actively engaged in the construction industry.

Members represent a range of sectors within the industry including builders, architects, designers, engineers, subcontractors, developers and material suppliers.

For more information please see: www.constructionstrategygroup.org.nz

The NZ Construction Industry Council

The New Zealand Construction Industry Council is a not-for-profit industry association of organisations in the building and construction, design and property sectors. It is the collaborative voice of the built environment industry in New Zealand and operates at the interface between government (central and local) and industry.

For more information please see: nzcic.co.nz