



Presentation to The RCA Forum

“What’s Happening in the Contracting Industry”

Presented by

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Overview

- Boom/Bust Cycles
- Matching contracting resources to programme demands
- Procurement
- Skills in the industry
- Technical



Boom Bust Cycles

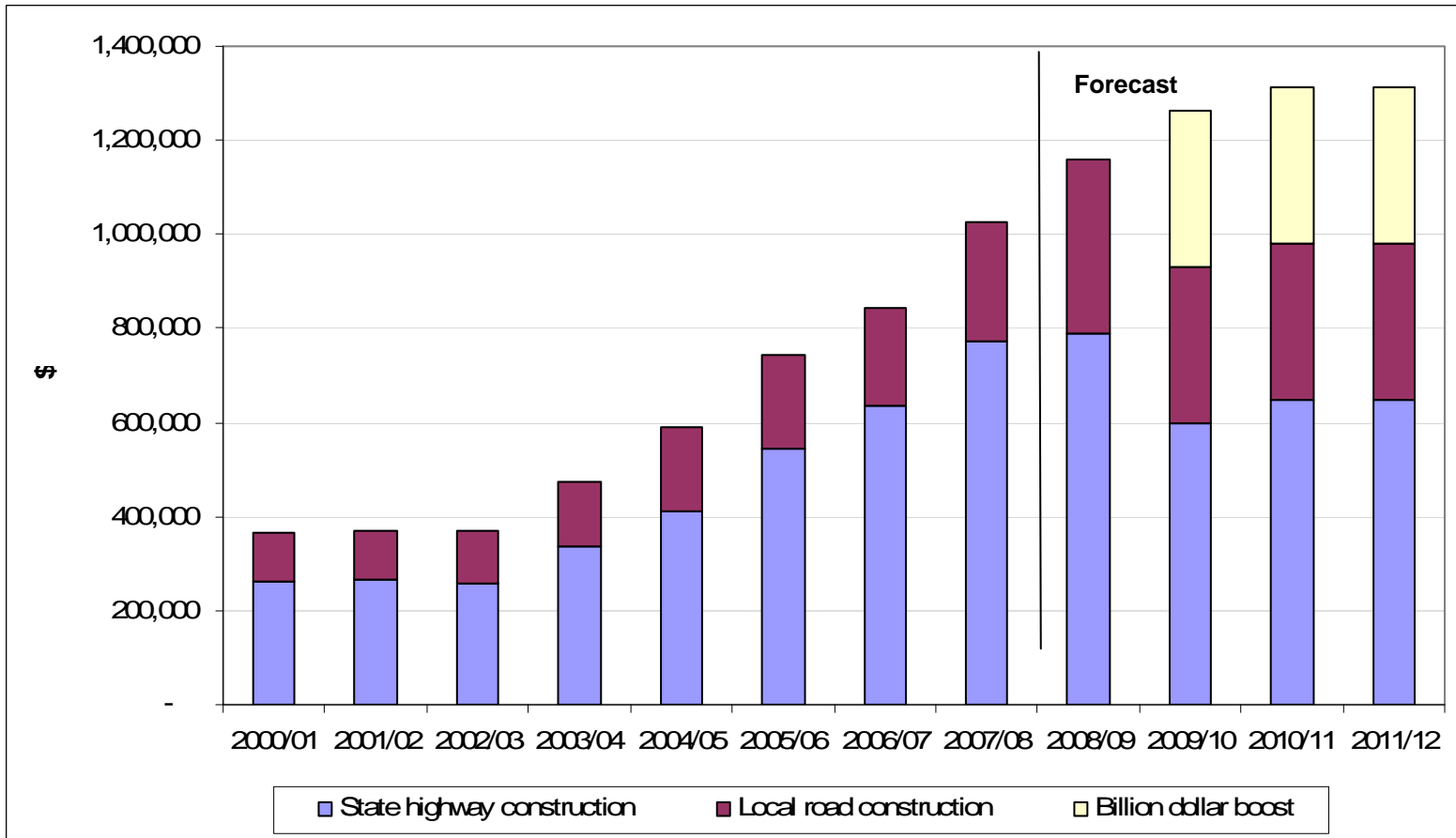
Source: *New Zealand Centre for Advanced Engineering: Boom/Bust Research Study*

- Construction industry typified by Boom/Bust
- Boom/Bust caused by internal systems, structure and behaviour, rather than external shock factors
- Boom/Bust volatility is caused by internal systems i.e. over reacting
- This can be managed through communication and collaboration

Current Situation

- Private sector work – dried up
- Local Authority work – substantially reduced
- State highway work
 - was to reduce, now to increase
 - NZTA/Industry Group set up to *“collaboratively develop solutions for delivering physical works/professional services programmes in the best interest of NZ incorporated”*
- 10 to 20 tenderers for physical works and professional services work common

Road Construction Demand



Doesn't include roads of national significance

Construction Industry Supply

- Grown by 4,000 employees (40%) between 2003 to 2007
- Shrunk by 400 in Jan/Feb 2009
- February Government Stimulus Package created 400 jobs
- Shrinking by another 400 jobs April/May/June
- Need to grow by a further 400 employees during 2009/10
(\$115M pa extra net)
- No programme certainty yet about “roads of national significance”
- Work needs to come onto the market quickly to avoid further redundancies

Contracting Sector will Match Demand

- Early 1990s all road maintenance work successfully contracted out
- Mid to late 1990s massive upskilling of industry due to performance based contracts
- Massive increase in industry capacity mid 2000s



How We Grew the Industry

- Roothing NZ developed growth strategy in 2003
- DoL and Roothing NZ public sector/private sector partnership to grow the construction sector in 2004
- Held Summit (officials and Industry) and agreed 40 initiatives
- Briefed and negotiated with Heads of Department and Industry CEOs
- Held a “Ministerial Meeting” (5 Ministers/Captains of Industry) and agreed 40 initiatives and implementation process
- Driven by project meetings and reporting back to Ministers and Industry
- Secretary of Labour reported success to Minister in 2005



The 40 Initiatives were around (Communication and Collaboration)

- Obtaining funding certainty
- Developing smooth programmes
- Introducing flexible procurement arrangements
- Developing recruitment strategies and Industry profile
- Staff retention and employment practices
- Training and skills development
- Innovation, productivity and efficiency
- Minimising compliance and regulation
- Improving immigration opportunities

The Results

Systems thinking, communication and collaboration across the sector ensured

- adequate industry capacity and skills
- sufficient competition
- minimised escalation (MAG Report)



Procurement Needs to Change

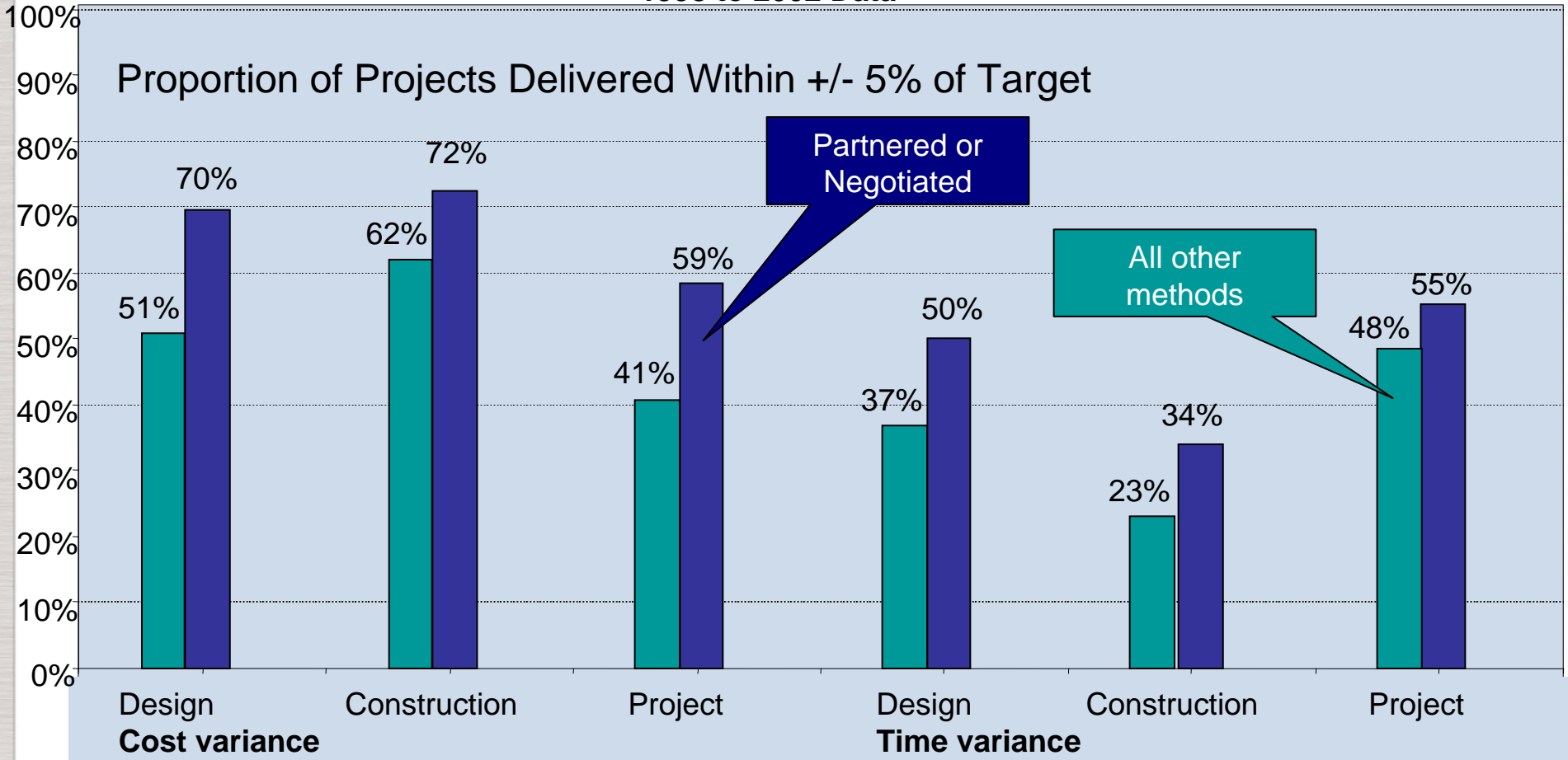
Source: NZCIC *“Principles of Best Practice Construction Procurement”*

Findings

- N.Z construction procurement generally based on cost rather than value resulting in
 - hidden out turn/downstream costs
 - quality/training/health and safety etc compromised
 - unrealistic unsustainable bids
- For non routine work collaborative procurement is best

The business case

18-44% more likely to deliver on cost, 7-15% more likely on time
Predictability of Partnered or Negotiated Contracts v. All Other Contractor Selection Methods
1998 to 2002 Data



Collaborative Procurement Speeds up Construction

- Need investigation, design and construction phases to be in parallel because
 - reduces completion times by half
 - creates value by Early Contractor Involvement
- Need parties to focus on project outcomes – not self interest
- Clients and contractors need to discuss and understand appropriate contract types by project



Skills in the Industry

- Fierce Competitive Pricing Procedures in 1990s
 - created a difficult and tough working environment
 - minimised training investment in workforce
 - caused skilled workforce people to leave the industry

- Increased funding and certainty with relaxed CPPs in 2005
 - gave contractors confidence to invest in training
 - allowed training to be priced in tenders

Member Employees Training Footprint 2007 [Boom Period]

	% of employees		
	Currently have	5 year target	In training
•Qualifications	49	80	25
•Some form of training	95	100	68

Source: *Roading NZ Survey of members covering 70% of industry*

Skills Development for the Future

- Needs to be included in Procurement Procedures
- Three procurement options
 - include lump sum in tender schedule
 - require competency through unit standards/qualifications
 - include KPIs for completed unit standards
- Perhaps have mandatory trade qualifications like Building Sector



Very Strong Technical Focus

- Roading NZ has 20 committees and sub-committees working on improving technical best practice
- Around 70 of our members are voluntarily involved
- Committee members are a mix of practical and technical, including 2 Doctors of Engineering
- Working on about 50 initiatives
- Industry self funds to around \$500,000 pa
- Committees range from laboratories group to sector stabilization committee



Examples of Technical Initiatives

- A Guide for use of Polymer Modified Binders
- Accredited Asphalt Plants
- Working with Auckland University to identify new aggregate sources in the North Island
- Practitioners Guide for Basecourse Construction
- Traffic Controllers Handbook
- Turning best practice into hundreds of qualifications and competency standards

Summary

- Contracting industry has successfully geared up to meet demand
- Construction work has reduced, now flattened off, may increase in future
- Very important to eliminate construction programme slippage
- Cost escalation can be managed and contained during boom
- A change to collaborative procurement is required to handle the increased level and size of projects
- Skill development must be included in procurement process
- Roding NZ is very involved in developing technical best practice



Entries open May

Awards 7th September



"Building Value"

8th September

Thank you

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