



## COVERSHEET

|                               |   |                             |                           |
|-------------------------------|---|-----------------------------|---------------------------|
| <b>Minister</b>               | Hon Jenny Salesa                        | <b>Portfolio</b>            | Building and Construction |
| <b>Title of Cabinet paper</b> | Construction Sector Transformation Plan | <b>Date to be published</b> | 19 August 2020            |

### List of documents that have been proactively released

| <b>Date</b>      | <b>Title</b>   | <b>Author</b>                                       |
|------------------|--|---|
| 4 December, 2019 | Cabinet paper: Construction Sector Transformation Plan             | Office of the Minister of Building and Construction |
| December, 2019   | Cabinet paper annex: Draft Construction Sector Transformation Plan | MBIE & Construction Sector Accord                   |
| 5 December, 2019 | Cabinet minute: DEV-19-MIN-0335                                    | Cabinet Office                                      |

### Information redacted

YES / NO [select one]

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Budget Sensitive

Office of the Minister for Building and Construction  
Chair, Cabinet Economic Development Committee

## **CONSTRUCTION SECTOR TRANSFORMATION PLAN**

### **Proposal**

1. This paper seeks Cabinet's approval of the Construction Sector Transformation Plan, which is a bold package of programmes that will be delivered by government and industry over three years to achieve the goals of the Construction Sector Accord.
2. This paper also seeks Cabinet's agreement as to how transformation costs of \$1.373 million 2019/20 will be managed. This funding will ensure delivery of immediate Transformation Plan commitments from January 2020, while work on future funding is progressed.

### **Executive Summary**

3. This paper seeks Cabinet's approval of the Construction Sector Transformation Plan (Transformation Plan), which outlines the actions that government and industry have agreed will lift performance and shift culture in the sector.
4. The Accord is effectively the Government's first Industry Transformation Plan (ITP), making it the lead example of how government and industry can partner to transform key industries across New Zealand. This places even greater importance on government supporting the Accord and delivering on its commitment to work with industry to lift the performance of a crucial sector in New Zealand.
5. The Accord was launched in April 2019, setting out the outcomes sought for the sector and a group of principles to follow to effect the culture change needed. At the launch, the Prime Minister, Ministers<sup>1</sup> and leaders across government and industry pledged their commitment to creating a better sector for the benefit of all of New Zealand.
6. Since April, government and industry have been engaging widely across the sector to develop a Transformation Plan that will achieve the goals and outcomes set out in the Accord. The three-year plan, which has been endorsed by Accord Ministers, agencies and industry leaders, sets out 21 programmes across six major work streams that will create transformational change. The success of the Plan will be measured against the four Accord goals of increasing productivity, raising capability, improving resilience, and restoring confidence, pride and reputation.

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<sup>1</sup> The Accord Ministers are the Ministers for/of Building and Construction, Urban Development, Economic Development, Housing, Education, State Services, Health, Workplace Relations and Safety, and Infrastructure.

7. To establish the Accord programme and deliver the work to-date, both government and industry have made significant financial and in-kind contributions. Accord agencies are already reporting on progress on the existing initiatives, and there are multiple examples of government and industry demonstrating the Accord principles in their work. The Accord Steering Group, made up of senior government and industry leaders, is committed to overseeing delivery of the Transformation Plan.
8. The Accord is only funded until the end of December 2019, when the Transformation Plan will be launched. Delivery of the transformational programmes requires funding totalling \$10.359 million.
9. From September 2020, I anticipate that elements of the Transformation Plan could be funded using the Building Levy (subject to parliamentary approval to amend the Building Act 2004)<sup>2</sup> with industry contribution to be confirmed from mid-2021. Funding required until June 2020 amounts to \$3.223 million, of which \$1.850 million will be sourced through reprioritisation from Accord agency baselines. My preferred approach to the shortfall of \$1.373 million is that Cabinet agrees funding through this paper as a pre-commitment against Budget 2020.
10. Securing the funding shortfall will maintain momentum. It will deliver on key commitments made by industry and government on the Accord for the first half of 2020. Without this funding, the scale and pace of the programme delivery will both be reduced. This would have substantial implications to both industry and government. Industry and sector participants have made significant contributions to date and have clear expectations of progress, action and change. Slowing down at this point will likely be detrimental to the overall success of the transformation programme.
11. Under my preferred funding option, I intend to submit a budget bid for 2020/21 to 2021/22 of \$7.136 million as contingency to provide certainty for Transformation Plan delivery. I anticipate that expected changes to Building Levy and industry funding contributions (once known) will reduce the amount drawn down from budget.
12. Alternatively, if a pre-commitment against Budget 2020 cannot be agreed at this time, I will seek funding through the budget of \$8.509 million which includes 2019/20 costs of \$1.373 million as described in paragraph 9 (above).
13. Under this option, there is a risk that the current funding identified by agencies reprioritisation may be exhausted before additional funding is secured. This will reduce the momentum and sector confidence in the programme.

### **The Accord is a leading example of government and industry partnering for change**

14. The Accord is a partnership between government and industry to transform the construction sector. It was established to respond to long-standing issues in the sector — to ensure it will meet ongoing high demand for housing and infrastructure

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<sup>2</sup> Building levy can be spent on the specific functions of the building regulator. Building system legislative reform changes scheduled for introduction in the first quarter of 2020 will enable the levy to go towards broader stewardship of the building regulatory system. This means relevant stewardship and regulatory activities of the building system could be funded through the Building Levy once the amendments are passed in August 2020.

programmes, and better support New Zealand's economic and social wellbeing [DEV-19-MIN-0056 refers].

15. Government and industry recognise that they must work together differently to create a high-performing sector able to meet these needs now and in the future. Industry needs to ensure a skilled workforce, resilient businesses, and a collaborative culture underpinned by trust and respect. As the regulator and a major client, government needs to ensure effective regulation, a well-managed pipeline and good procurement practices, and to support the sector to grow and upskill.
16. Government agencies<sup>3</sup> worked with industry leaders to establish the Accord leadership arrangements, develop a shared vision for the sector, agree on the outcomes and goals sought and identify the work required to achieve them.
17. The Accord's vision is 'a high performing construction sector for a better New Zealand'. To achieve the vision, the Accord has four strategic goals:
  - Increasing productivity;
  - Raising workforce capability;
  - Improving business resilience; and
  - Restoring the pride and reputation of the sector.
18. These goals are underpinned by a set of fundamental principles, aiming to shift behaviours across the sector to create positive and sustained change.
19. The Accord identified nine priority work areas to achieve the strategic goals. It included a set of government initiatives already planned or underway, and industry commitments focusing on better collaboration, health and safety, skills, and risk management.
20. The launch of the Accord by the Prime Minister, Accord Ministers and senior business leaders in April 2019 also signalled the development of the Government's first Industry Transformation Plan. The Minister of Economic Development is bringing a paper to this Committee today detailing progress on the Industry Transformation Plans, which highlights that the Accord is leading the way in how government and industry can partner for the success of vital sectors in New Zealand.

### **The Accord is already driving practice and behaviour change in the sector**

21. Since its launch, the Accord has been widely publicised and has generated strong interest across the building and construction sector. To date nearly 500 people and businesses have signed up on the Accord website to get involved in sector transformation. Public meetings and workshops across the country to progress the Accord's work have been attended by nearly 200 sector leaders and interested members of the public. A survey of 230 sector participants found that 56% felt the

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<sup>3</sup> The agencies involved included: Ministry of Business, Innovation and Employment, Ministry of Housing and Urban Development, Ministry of Health, Ministry of Education, Kāinga Ora, New Zealand Transport Agency, Infrastructure Commission, Worksafe New Zealand and Tertiary Education Commission.

Accord had the potential to make significant positive change, and nearly 80% said they were motivated to be a change-maker.

22. Industry leaders have embraced the Accord. They have willingly contributed unpaid support at an estimated cost of \$1.18 million in the form of leadership, advice, time and travel expenses. This contribution has made it possible for government to work with industry leaders to engage widely across the sector and agree on the programmes needed for transformation.
23. Industry leaders on the Accord Steering Group are also championing behavioural and practice change, and carrying out their commitments in the Accord. Key examples include:
  - KiwiRail's change in approach to contracts with construction firms. They have pledged to reduce the number of special conditions in their contracts to make them more fair and transparent, following the Accord principle of building trusting relationships.
  - Industry leaders' support to boost the Construction Skills Action Plan. Their actions over time will include taking on new employees through Mana in Mahi and Skills for Industry, using the Jobs and Skills Hubs for recruitment, promoting the TEC online hub 'Get Ahead with a Construction Career', and developing micro-credentials that give short training in specific skills to meet industry need.
  - Industry leaders in the Accord Steering Group are working with the Tertiary Education Commission to shape the design of the Construction Centre of Vocational Excellence (CoVE).
  - Extensive engagement with businesses, workers, industry bodies and the wider public to discuss the issues in the sector and gather ideas and input on the Transformation Plan.
24. Government has also committed funding and substantial resource to the Accord. To date Cabinet has approved the reprioritisation of \$2.25 million from MBIE baselines [CAB-18-MIN-0634 and CAB-19-MIN-0303 refer]<sup>4</sup>. This funding has supported the establishment and launch of the Accord, programme leadership and management, and the development of the Transformation Plan.
25. Government has achieved key milestones and targets for the existing and planned initiatives outlined in the Accord, overseen by the Accord Ministers. Progress since April includes:
  - First Infrastructure Pipeline for five government agencies published in May 2019, to give industry more certainty about upcoming projects;
  - Launch of the Government Procurement Rules (4th edition), which now require government agencies to consider workforce training in their tender evaluations for large construction projects;
  - More than 1,200 people placed in construction-related work through Mana in Mahi and the expansion of Skills for Industry; and

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<sup>4</sup> The Crown's contribution of \$2.25m was reprioritised from MBIE underspends for 18/19 and 19/20 financial years. The reprioritised funding for 19/20 includes \$400,000 for initiatives to support youth to transition into construction-related training and employment [CAB-19-MIN-0303 refers].

- WorkSafe Engagement and Participation projects to improve health and safety performance at Dunedin Hospital and Auckland City Rail Link.
  - The Ministry of Education (MoE) has reported following the Accord principles by proactively reviewing its procurement practices. In the contract process for Karori West Normal School, MoE collaborated early with the supplier and paid special attention to being transparent about risk – an approach which the supplier described as ‘a breath of fresh air’.
26. This progress and momentum confirms the value of the Accord as the vehicle for sector coordination and collaboration, and the importance of implementing the programmes that government and industry have agreed will drive sustained transformation.

**I am confident the Transformation Plan programmes will achieve the Accord’s goals**

27. I seek Cabinet’s approval and endorsement of the Transformation Plan, which is annexed to this paper.
28. The Transformation Plan’s development has been overseen by Accord Ministers, who have endorsed the transformational programmes to be delivered by agencies and industry with the wider sector.<sup>5</sup>
29. The Transformation Plan was developed by the Accord Steering Group (ASG) of 24 industry and government leaders, in consultation with the wider sector. Steering Group membership reflects the broad ecosystem that makes up the construction sector and includes representation for workers, architects, planners, developers, regulators, constructors, trades, clients, and health and safety.
30. The purpose of the Transformation Plan is to communicate the new and enhanced initiatives that will lift sector performance and achieve the goals set out in the Accord. It builds on the existing Accord initiatives and sets out 21 programmes across six work streams<sup>6</sup>:
- Leadership;
  - Business Performance;
  - People Development<sup>7</sup>;
  - Health, Safety and Wellbeing;
  - Regulatory Environment; and
  - Procurement and Risk.
31. The diagram on the following page sets out the 21 programmes across these work streams, when they will be delivered and by whom, and what the programmes will achieve that contributes towards the Accord’s goals.

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<sup>5</sup> The key Accord partner agencies include: Ministry of Business, Innovation and Employment, Ministry of Housing and Urban Development, Ministry of Health, Ministry of Education, Kāinga Ora, New Zealand Transport Agency, Infrastructure Commission, Worksafe New Zealand and Tertiary Education Commission.

<sup>6</sup> The programmes across these six work streams cover the nine priority work areas in the original Accord document.

<sup>7</sup> The People Development work stream includes an initiative to support youth transitions into training and employment through Jobs and Skills Hubs. This initiative was allocated \$400,000 in funding by Cabinet in June 2019 [CAB-19-MIN-0303 refers].

32. Key Performance Indicators (KPIs) have been identified to measure progress against the Accord goals of increasing productivity, raising capability, improving resilience and restoring confidence, pride and reputation. The KPIs are based on existing data sources. The Transformation Plan will be monitored and evaluated to build up an evidence base about the impact of the programmes and improve them over time. I intend to report back to Cabinet on the Transformation Plan's progress by the end of 2020.

# Transformation Plan on a page

|  |  |  |  |   |   |   |
|--|--|--|--|---|---|---|
| <br><b>Vision</b>       | <b>High performing construction sector for a better New Zealand</b>  |  |  |   |   |   |
| <br><b>Goals</b>        | <b>Increase productivity</b>   | <b>Raise capability</b>  | <b>Improve resilience</b>  | <b>Restore confidence, pride and reputation</b>   |   |   |
| <b>Work streams</b>  | <b>Leadership</b>  | <b>Business Performance</b>  | <b>Workforce Development</b>   | <b>Health and Safety</b>  | <b>Regulatory Environment</b>   | <b>Procurement and Risk</b>   |
| <br><b>Outcomes</b>     | <ul style="list-style-type: none"> <li>• Collaborative industry</li> <li>• Trusted and respected professions</li> <li>• Transparency</li> <li>• High performing culture</li> </ul>   | <ul style="list-style-type: none"> <li>• High performance culture</li> <li>• Greater pipeline certainty and confidence to invest for the future</li> <li>• Profitability and stronger balance sheets</li> <li>• Trust and confidence in the construction sector</li> </ul> | <ul style="list-style-type: none"> <li>• Increased workforce capacity and capability</li> <li>• Job security</li> <li>• Career pathways and opportunities to upskill</li> <li>• Greater diversity</li> <li>• Increased earning power</li> </ul>                      | <ul style="list-style-type: none"> <li>• Raise capability</li> <li>• Increase productivity</li> </ul>   | <ul style="list-style-type: none"> <li>• Quality durable builds</li> <li>• Fit for purpose options for products and services</li> <li>• Consistent, reliable and timely project delivery</li> </ul> | <ul style="list-style-type: none"> <li>• Trust and confidence in the sector</li> <li>• Fair risk allocation</li> <li>• Transparency</li> <li>• Stable, healthy and more productive construction sector</li> <li>• Better whole-of-life value for taxpayers</li> </ul> |
| <br><b>Programmes</b> | <ol style="list-style-type: none"> <li>1. Accord leadership group</li> <li>2. Beacon projects</li> <li>3. Sector culture change</li> <li>4. Major reform engagement model</li> </ol> | <ol style="list-style-type: none"> <li>5. Enhanced construction pipeline</li> <li>6. Promote better business practice</li> <li>7. Education programme on commercial risks</li> </ol>   | <ol style="list-style-type: none"> <li>8. Boost Construction Skills Action Plan</li> <li>9. Build workforce capability</li> <li>10. Shape the Reform of Vocational Education</li> <li>11. Long term workforce plan</li> <li>12. Diversity in construction</li> </ol> | <ol style="list-style-type: none"> <li>13. Enhance health and safety programmes</li> <li>14. Support mental wellbeing programmes</li> <li>15. Standard health and safety prequalification system</li> </ol> | <ol style="list-style-type: none"> <li>16. New building consenting model</li> <li>17. Support building legislative reform</li> </ol>  | <ol style="list-style-type: none"> <li>18. Agree and adopt good procurement practices</li> <li>19. Fair transparent contracts</li> <li>20. Subcontractor assurance – contracts, payments and risk</li> <li>21. Procurement advisory panel</li> </ol>                  |



33. There are some programmes in the Transformation Plan that have been identified by industry and government as ‘game changers’ for the sector and these are detailed in the table below. They introduce different ways of government and industry working together by putting the Accord principles front and centre, and bring into focus important issues such as consenting and workforce diversity:

|   |
|---|
| <p><b>An early engagement model between government and industry on major reforms</b></p> <p>Applying the Accord partnership principles, the Accord leadership group will develop a new engagement model between industry and government (central and local) to shape and inform major reforms.</p> <p>The new engagement model will be used for all major reforms that support Accord outcomes, such as the Reform of Vocational Education (RoVE), Kāinga Ora and the Building System Legislative Reform Programme.</p> <p>The purpose of this initiative is to actively engage when problems and solutions are being defined, before options are presented to Ministers or for wider consultation. This does not replace existing consultation, but better informs it.</p> |
| <p><b>A new building consenting model to support efficient consenting</b></p> <p>The Accord leadership group will work with central and local government to develop a new model for building consenting. The model will improve the process for providing assurance that building design and construction complies with performance requirements in the Building Code.</p> <p>The current consenting system that operates across the 69 Building Consent Authorities will be assessed and redesigned, including the roles and functions of all participants in the consenting process. New digital technologies to ensure consistency and efficiency will also be proposed.</p>   |
| <p><b>Strengthening diversity in the construction workforce</b></p> <p>Currently women make up only 18 percent of the construction-related workforce and Māori and Pasifika are underrepresented in the skilled professions, meaning the industry is missing out on a large pool of workers. The Accord leadership group will work with the sector to build on existing diversity campaigns that promote construction as a good career option.</p> <p>The initial focus will be on increasing the participation of women in construction. This will include collaborating with the Women in Trades initiative and women in engineering and architecture campaigns.</p>  |
| <p><b>Greater industry leadership to shape the Reform of Vocational Education (RoVE)</b></p> <p>The Accord leadership group will collaborate with the Ministry of Education, Tertiary Education Commission and MBIE to help shape the design of the vocational education system. This includes working with the Construction Centre of Vocational Excellence (CoVE), Regional Skills Leadership Groups, and the Construction and Infrastructure Workforce Development Council (WDC) to ensure training programmes match what the industry needs.</p>  |
| <p><b>Developing a more comprehensive construction and infrastructure pipeline</b></p> <p>The Accord leadership group will work with the New Zealand Infrastructure Commission and Kāinga Ora, and across industry and government to develop a more comprehensive and certain pipeline of construction work.</p> <p>It is proposed that the pipeline will include both government and private sector projects. This work will provide businesses with a better forward view of committed upcoming work and give them the confidence to invest more in skills and technology.</p>  |

34. Underpinning the Transformation Plan is a culture change programme that will ensure sector participants are informed, engaged, and inspired to support the initiatives and follow the Accord principles. This programme is focused on strong leadership and personal commitment, shared accountability for success, and actively and collaboratively lifting sector performance.
35. Subject to Cabinet's approval of the Transformation Plan, it is scheduled to be launched by Ministers, industry leaders and senior officials at an event in December 2019.

#### *Integration of the Construction Skills Action Plan with the Accord*

36. The Construction Skills Action Plan (CSAP), a programme of six initiatives to get an additional 4,000 people training and working in construction, is progressing successfully. All six initiatives in the programme are now being implemented and are well on their way to achieving the overall target by October 2021. These initiatives will continue to be implemented, improved and supported by industry under the existing CSAP brand, with progress reported to Accord Ministers.
37. Further initiatives to grow the capacity and capability of the workforce will now be implemented as part of the Accord, rather than further Construction Skills Action Plans. I made this decision to ensure that initiatives to grow the skills of our people in construction are developed and implemented cohesively.
38. The Transformation Plan will deliver a comprehensive 'people development' work stream to attract a more diverse range of people into construction careers, grow the size of the workforce and support the upskilling of people and businesses in construction.

#### **Resourcing the Accord is crucial to maintain progress and deliver on commitments**

39. The Transformation Plan will be implemented over three years to June 2022. The overall cost of delivery for this time period totals \$10.359 million. This is to enable programme design and implementation, change management, monitoring and evaluation, coordination, communication and leadership across government and industry.
40. Further funding must be committed to deliver and sustain this work. The consequences of government not contributing are considerable. Ministers have publicly committed to and endorsed the Accord as the vehicle for driving change in partnership with industry. The momentum and support gained during the development of the Transformation Plan has raised public expectations that this partnership will bring about much-needed improvements in the sector. The Accord crosses multiple portfolios and will contribute to broader social, economic and environmental outcomes for the people of New Zealand.
41. In addition, the Accord is the leading example of the Government's Industry Transformation Plan (ITPs). My colleague the Minister of Economic Development is bringing a paper to this committee today that identifies the Accord as being effectively the first ITP – which raises the importance of its success even further.

42. The Accord is currently funded until the end of December 2019 to develop and launch the Transformation Plan. I directed officials to ascertain how Transformation Plan delivery will be funded by government and industry, and what contribution is required from government to meet its commitments.
43. To fully fund the \$10.359 million, the approach below sets out the different sources identified across government and industry to deliver the programme from January 2020 to July 2022.

- 43.1. **Short-term funding for the period of January to June 2020 will be sourced from reprioritisation from agencies' baselines.** Government funding reprioritised from baselines totals \$1.850 million in 2019/20 (tabled below).

| Accord agencies                       | Funding proposed for reprioritisation |
|---------------------------------------|---------------------------------------|
| MHUD                                  | \$400,000                             |
| MBIE (NZGPP, BSP)                     | \$800,000                             |
| Kāinga Ora                            | \$400,000                             |
| NZTA                                  | \$250,000                             |
| New Zealand Infrastructure Commission | TBC.                                  |
| MoE                                   | In-kind contribution (2 to 5 FTEs)    |
| TEC                                   | None                                  |
| MoH                                   | None                                  |
| <b>Total contribution:</b>            | <b>\$1.850 m</b>                      |

- 43.2. **Further funding requirements for programme delivery:**

43.2.1. **Building Levy funding may be accessed from late 2020.** In the second half of 2020, legislative change is proposed to come into effect that will allow building levy funding to be used for elements of the Construction Sector Transformation Plan that relate to building sector stewardship activities.<sup>8</sup>

43.2.2. **Industry will maintain in-kind contribution with further funding options to be explored from mid-2021.** Industry leaders are committing an estimated \$376,500 between January to July 2020, to cover the costs of meetings and time overseeing, leading and advising on Transformation Plan activities. These costs are additional to the \$10.359 million.

43.2.3. **Budget bid against Budget 2020 to provide funding certainty for programme delivery.** This bid is needed to provide certainty and cover for any further programme costs until June 2022 that cannot be funded from the Building

<sup>8</sup> These activities will need to demonstrate a direct link to the regulatory system and a clear benefit to levy payers, as well as not being funded through other appropriations.

Levy (as its use is still subject to the legislative process) or by industry. This bid seeks a total of \$8.509 million (of which \$1.373 million in short-term funding is sought through pre-commitment against Budget 2020 and remaining \$7.136 million for 2021 to 2022). Once Building Levy and industry funding is more certain, any remaining funding will be returned to the Crown.

### **Financial Implications**

44. My preferred funding option is a pre-commitment against Budget 2020. Approval of \$1.373 million of new funding is requested, this is in addition to fiscally neutral adjustments from agency baselines totalling \$1.850 million for 2019/20. The funding sought is for the 2019/20 financial year only.
45. I will also seek funding for period 2020/21 to 2021/22 through Budget 2020 to ensure government can continue working with industry to deliver the agreed transformational programmes.
46. Should a pre-commitment not be agreed at this time, I will seek Budget funding as outlined in paragraph 45 above with the addition of 2019/20 costs.
47. Once legislative change comes into effect in late 2020 to expand the scope of the Building Levy, funds accumulated from the time of the law change will be able to be put towards relevant elements of the Transformation Plan programmes. This means that some of the funding sought through Budget 2020 could be returned to the Crown.

### **Consultation**

48. The Treasury, Ministry of Education, Kāinga Ora, Infrastructure Commission, Ministry of Health, Tertiary Education Commission, Ministry of Housing and Urban Development, New Zealand Transport Authority, and Worksafe New Zealand were consulted on this paper and their feedback was incorporated.

### **Legislative Implications, Human Rights, Gender Implications and Disability Perspective**

49. There are no legislative human rights or gender implications resulting from the proposals set out in this paper.

### **Publicity**

50. I expect the launch event scheduled for December 2019 to be well attended and publicised. Senior business leaders have indicated their attendance, reflecting industry's endorsement of the Transformation Plan and commitment to share, own and support the work. Media will also be invited to attend the launch event.
51. As the lead Accord Minister, I intend to issue a media release welcoming the launch of the Transformation Plan by government and industry. The Accord website, which shares information about the programme and its progress, will be updated with Transformation Plan content on the day of the launch. A stakeholder email will also be issued by industry leaders to link the wider sector to the media release and Accord website.

## Proactive Release

52. I intend to consider this paper, along with the Cabinet minute and supporting documentation, for proactive release after budget 2020 announcements. The release of the information is subject to redactions consistent with the Official Information Act 1982.

## Recommendations

The Minister for Building and Construction recommends that the Committee:

1. **note** that the Construction Sector Accord, launched in April 2019, establishes and communicates a mutual commitment between government and the construction industry to support the transformation of the sector for the success of New Zealand;
2. **approve** the Transformation Plan and endorse its implementation by government agencies and industry;
3. **note** that to deliver on the commitments and goals in the Construction Sector Accord government and industry have developed a Construction Sector Transformation Plan, which details concrete programmes that will be implemented by the sector over three years and a behaviour and culture change plan at the cost of \$10.359 million;
4. **note** that to deliver a cohesive package of initiatives to grow the capacity of the construction workforce, the work to develop future iterations of the Construction Skills Action Plan has been integrated into the Transformation Plan and will be delivered under the Accord programme;
5. **note** Parliament is due to consider in 2020 the legislative amendments to the Building Act 2004 that will enable the Building Levy to be spent on broader stewardship of the building regulatory system. I anticipate this change would allow the levy to be spent on elements of the ongoing delivery of the Transformation Plan;
6. **note** that a funding shortfall of \$3.223 million from January 2020 until start of 2020/21;
7. **note** that Accord agencies were directed to identify funding from within baselines to contribute towards this shortfall;
8. **agree** to fund the Transformation Plan for 2019/20;
9. **approve** the following changes to appropriations to give effect to the policy decision in recommendation 8 above, with no impact on the operating balance and net core Crown debt:

|  | \$m – increase/(decrease) |         |         |         |                    |
|--|---------------------------|---------|---------|---------|--------------------|
|  | 2019/20                   | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |
| <b>Vote Building and Construction<br/>Minister for Building and<br/>Construction</b> | 1.050                     | -       | -       | -       | -                  |
| Multi-Category Expenses and Capital  |                           |         |         |         |                    |

|  |       |   |   |   |   |
|--|-------|---|---|---|---|
| Expenditure:<br>Policy Advice and Related Outputs MCA<br>Departmental Output Expense:<br>Policy Advice - Building and<br>Construction<br>(funded by Revenue Department)  |       |   |   |   |   |
| <b>Vote Building and Construction<br/>Minister for Building and<br/>Construction</b><br>Departmental Output Expenses:<br>Building Regulation and Control<br>(funded by Revenue Other)  | 0.500 | - | - | - | - |
| <b>Vote Business, Science and<br/>Innovation</b><br><b>Minister for Economic Development</b><br>Departmental Output Expenses:<br>Economic Development:<br>Implementation of Improvements in<br>Public Sector Procurement and<br>Services to Business<br>(funded by Revenue Department) | 0.300 | - | - | - | - |
| <b>Total Operating</b>   | -     | - | - | - | - |
| <b>Total Capital</b>   | -     | - | - | - | - |

10. **agree** that the proposed change to appropriations 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

*EITHER*

11. **approve** the following changes to appropriations to give effect to the policy decision in recommendation 8 above, with a corresponding impact on the operating balance and net core Crown debt:

|   | \$m – increase/(decrease) |         |         |         |                       |
|---|---------------------------|---------|---------|---------|-----------------------|
|   | 2019/20                   | 2020/21 | 2021/22 | 2022/23 | 2023/24 &<br>Outyears |
| <b>Vote Building and Construction<br/>Minister for Building and<br/>Construction</b><br>Multi-Category Expenses and Capital<br>Expenditure:<br>Policy Advice and Related Outputs MCA<br>Departmental Output Expense:<br>Policy Advice - Building and<br>Construction<br>(funded by Revenue Crown) | 1.373                     | -       | -       | -       | -                     |
| <b>Total Operating</b>  | <b>1.373</b>              | -       | -       | -       | -                     |
| <b>Total Capital</b>  | -                         | -       | -       | -       | -                     |

AND

12. **agree** that the proposed change to appropriations 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

AND

13. **agree** that the expenses incurred under recommendation 11 above be charged as a pre-commitment against the Budget 2020 operating allowance;

OR

14. **note** that should this funding not be agreed at this time I will seek funding for 2019/20 through the budget but there is a risk that this will likely reduce programme momentum and sector confidence on the Transformation Plan;
15. **note** that to ensure certainty of Transformation Plan delivery, I will submit a budget bid through Budget 2020 for between \$7.136 and \$8.509 million, amount sought will depend on the funding option agreed in this paper;
16. **note** that subject to Cabinet's approval of the Transformation Plan, it is scheduled to be launched by Ministers, industry leaders and senior officials at an event in December 2019;
17. **invite** the Minister for Building and Construction to report back to Cabinet by the end of 2020 on further options identified by industry leaders and government to fund the Transformation Plan;
18. **invite** the Minister for Building and Construction to report back to Cabinet on progress to deliver the Transformation Plan by the end of 2020.

Authorised for lodgement

Hon Jenny Salesa

Minister for Building and Construction



IN DRAFT AND IN CONFIDENCE

**CONSTRUCTION**  
SECTOR ACCORD

# CONSTRUCTION

## SECTOR TRANSFORMATION PLAN

DECEMBER 2019



## ACCORD MINISTERS



**Hon Jenny Salesa (Chair)**

Minister for Building  
and Construction



**Hon Dr Megan Woods**

Minister for Housing



**Hon Phil Twyford**

Minister for Urban Development  
Minister for Economic Development



**Hon Iain Lees-Galloway**

Minister for Workplace  
Relations and Safety



**Hon Shane Jones**

Minister for  
Infrastructure



**Hon Chris Hipkins**

Minister of Education



**Hon David Clark**

Minister of Health

## ACCORD STEERING GROUP MEMBERS

**Peter Reidy (Co-chair)**

Chief Executive  
Fletcher Construction

**Chris Bunny (Co-chair)**

Deputy Chief Executive  
Ministry of Business,  
Innovation and Employment

**Dr Ashley Bloomfield**

Director-General of Health  
Ministry of Health

**Richard Briggs**

Chief Executive  
Hamilton City Council  
and Local Government NZ representative

**Graham Burke**

President  
Specialist Trade Contractors Federation  
and Chair Construction Industry Council

**Andrew Crisp**

Chief Executive  
Ministry of Housing and Urban Development

**Steve Evans**

Chief Executive  
Fletcher Residential

**Leonie Freeman**

Chief Executive  
Property Council New Zealand

**David Gordon**

General Manager  
KiwiRail Group

**Iona Holsted**

Secretary for Education  
Ministry of Education

**Rick Herd**

Chief Executive Officer  
Naylor Love

**Doug Johnson**

Managing Director  
Tonkin + Taylor

**Dave Kelly**

Chief Executive  
Registered Master Builders Association

**Steve Killeen**

Chief Executive Officer  
Downer New Zealand

**Dean Kimpton**

(Programme Director)  
Consultant

**Juergen Link**

General Manager  
Fonterra

**Roger McRae**

Chair  
Construction Health and Safety  
New Zealand (CHASNZ)

**Tim Melville**

President  
New Zealand Institute of Architects

**Karen Mitchell**

Interim Head  
Infrastructure Transactions Unit  
(Infrastructure Commission)

**Bill Newson**

National Secretary  
E Tū

**Michael Sentch**

Manager  
Project United

**Janine Stewart**

Partner  
Minter Ellison Rudd Watts

**Carolyn Tremain**

Chief Executive  
Ministry of Business,  
Innovation and Employment

**Steve Webster**

Chief Infrastructure Officer  
Watercare

## MESSAGE FROM THE MINISTER

The future of the construction sector is critical to the success of Aotearoa New Zealand. How the sector is organised, supported and led, will determine outcomes not only for the more than over 250,000 New Zealanders who work in it, but also for the 4.5 million of us who rely on it for warm, dry and efficient homes, good schools, modern hospitals, safe worksites, and high quality roads and rail.

As New Zealand gears up for construction activity to grow to reach \$43.5 billion in the next five years, it is crucial that Government and industry work alongside one another to deliver the fundamentals for a thriving building and construction sector. We want to see value for the \$10 billion the Government spends annually on construction and infrastructure. The sector and our workforce need to know that the future is bright with a strong pipeline of work from Government.

In April this year, our Prime Minister Rt Hon Jacinda Ardern, myself and fellow Ministers, joined construction sector leaders in signing the Construction Sector Accord. The Accord created a new platform for Government and industry to partner with each other in order to solve the many long-term challenges facing the sector. This is one of the priorities for Government.



A handwritten signature in black ink, appearing to read 'Jenny Salesa'.

**Hon Jenny Salesa**  
Minister for Building  
and Construction

As part of the Accord, we pledged to work together to create a plan to transform the industry for the benefit of all of us living in Aotearoa New Zealand. I have been heartened to see so many people willingly come on board to help in developing this Transformation Plan. It is a great achievement and testament to the commitment from leaders and people from across the industry. Many have told me they see this as a unique and valuable opportunity to create a stronger and healthier construction sector.

I'd like to especially acknowledge the work of the Accord Steering Group — 24 executives from some of our leading construction companies, working alongside leaders from unions, government agencies and industry organisations toward a common vision. The members of the Accord Steering Group have given so much of their time and considerable expertise, and have shown strong support and commitment to action as well as to leading by example.

The foundations of this plan are better leadership, collaboration, engagement and education, with actions focusing on building the workforce and improving processes and practices across the sector. The building consenting system will be reviewed and a new more efficient model proposed; there are initiatives to attract more diverse people into the industry including women; companies will have a better view of work coming up through the pipeline programme; and there will be work done around government construction contracts to make sure they are clearer and deliver better whole-of-life value. There are many more programmes in this plan that will all work together to achieve transformation.

I would like to thank everyone for providing your voice, ideas, expertise and commitment to the Accord programme and the Transformation Plan. There are some bold initiatives in this plan and there is more work to do. To make it a success, we need your support — support for the programmes in the plan, as well as for helping to create the culture change needed for a higher functioning sector that better supports the wellbeing of all New Zealanders.

## MESSAGE FROM THE CO-CHAIRS

This is an exciting time for New Zealand's construction industry. We have a great opportunity, with the industry and government working together to bring about much needed change - change that will better provide for the future needs of New Zealanders.

The construction sector matters to New Zealand. Construction contributes around 7 percent of our total GDP, with the industry expected to grow 10 percent by 2021. Despite this, the sector faces many challenges including a lack of business resilience, poor business and procurement practices and an adversarial culture. This plan will not solve everything, but it is a positive start to address key issues. We are very pleased to launch this Transformation Plan, putting the Construction Sector Accord into action.

The sector needs to change. For the first time we have seen leaders across the sector talk with each other about common problems, collaborate on ideas and ways to transform the sector through better behaviours. The Accord Steering Group has taken a leadership role to demonstrate the culture change needed.

This plan is about rebuilding trust and confidence in the sector and ensuring a healthy and sustainable industry. The key to successful transformation is for all of us working in the sector to play a part in making things better. We can already see the

positive impact the Accord is having. People are starting to do things differently such as rethinking the use of special conditions in standard contracts, and working with parties more collaboratively early on in projects to build a positive relationship from the start. We look forward to hearing many more great stories of change happening across the sector.

There are bold actions in this plan. It will provide visibility of a more comprehensive and certain pipeline of construction work that includes both government and private sector projects. It includes initiatives to lift performance through sharing good business and procurement practice, provide greater assurance for subcontractors, and promote a standard for fairer and more transparent contracts.

We would like to acknowledge the significant work put into developing this plan by our fellow Steering Group members, the 200 sector leaders and staff who took part in Transformation Plan development workshops, representatives from government agencies, and the nearly 500 people who have signed up to the Accord mailing list.

It's important we build on the valuable government and industry partnership created through the Accord - and work to make the sector a success for everyone. We ask everyone to actively support this plan and to consider how they can play a part in creating a better construction sector.



A handwritten signature in blue ink, appearing to read 'Peter Reidy'.

**Peter Reidy**  
CE, Fletcher  
Construction



A handwritten signature in blue ink, appearing to read 'Chris Bunny'.

**Chris Bunny**  
DCE, Ministry of Business,  
Innovation and Employment





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## EXECUTIVE SUMMARY

### A high performing construction sector for a better New Zealand

Industry and government have formed a partnership to work together to lift the performance of the construction sector. The sector faces challenges in many areas – including skills and knowledge gaps, poor business and procurement practices, and fragmented leadership – that affect productivity and threaten the industry's ability to build the environment New Zealanders need to support their wellbeing.

In April 2019 leaders across government and industry launched the Construction Sector Accord and pledged their commitment to creating a better sector for the benefit of all of New Zealand. The Accord set out a group of principles to follow to effect the culture change needed, and outlined the outcomes the Accord sought for the sector. This Transformation Plan, developed with input and ideas from people working across the sector and the regions, is how these outcomes and the vision of the Accord will be achieved.

The ambitious three-year plan has six major workstreams with programmes in each that will help make the shift needed to create a high-

performing sector. The success of the plan will be measured against the four Accord goals of increasing productivity, raising capability, improving resilience and restoring confidence, pride and reputation.

Improving the fundamentals of the way the sector operates will put the industry in a better position to innovate and embrace new technologies, and to focus on environmental sustainability. This plan is about getting the basics right and it's acknowledged there will be more work to do.

### A shared plan

In the spirit of the Accord principles of building trusting relationships and acting with collective responsibility, the Transformation Plan is jointly owned by government and industry. The Accord leadership group will be working with industry organisations, central and local government and their relevant agencies, and individual industry participants to develop and implement targeted programmes. This cross-sector approach will maximise the reach of the plan and ensure it can make a real difference in the sector.



## Summary of actions

The actions in the plan are focused on:

### Building skills and diversity

- › actively supporting the government's Construction Skills Action Plan to increase the workforce
- › developing new initiatives to fill current and predicted skills gaps
- › creating a long-term workforce plan
- › valuing and strengthening workforce diversity — women, Māori and Pasifika in construction

### Fairer contracts

- › promoting transparency in contracts including clarity on risks
- › providing assurance of prompt payment and strengthening the retentions scheme

### A comprehensive pipeline

- › building a more comprehensive and more certain pipeline of construction work that includes both government and private sector projects.

### Sharing good practice

- › using beacon projects to demonstrate success and good practice
- › improving procurement through refining and promoting the government's Construction Procurement Guidelines
- › setting up a procurement advisory panel
- › providing information on running a successful business
- › providing education programmes on dealing with risk

### A cross-government and industry leadership group

- › maintaining and evolving the Accord Steering Group to lead the transformation of the sector alongside existing industry bodies, and to drive the necessary culture change

### An industry leadership voice on reforms

- › establishing a coordinated industry leader's voice to feed into, shape and support major reforms including the review of the Resource Management Act, the Reform of Vocational Education (RoVE), building legislative reform, and the work of the newly formed Kāinga Ora agency responsible for public housing and urban development

### Improving consenting

- › developing a more efficient model for providing assurance that buildings are durable and safe
- › greater use of digital tools and technology

### Better health, safety and wellbeing

- › building on existing quality health and safety and mental health programmes
- › implementing the CHASNZ mental health in construction strategy
- › promoting and adopting 'safety in design' principles
- › creating a single health and safety prequalification standard





## THE NEED FOR TRANSFORMATION

As an important contributor to our economy, a major employer, and a key industry supporting the wellbeing of all New Zealanders, it's vital we have a thriving construction sector. But like many around the world, our construction sector is under stress and underperforming.

The sector is an ecosystem of diverse participants —suppliers, constructors, designers, engineers, maintainers, regulators and customers.

Ecosystems depend on the high performance of all parts — where one fails, there can be a knock-on effect across the sector. The problems facing the industry are well known, and these were reinforced during engagement with the sector in the development of this plan. The challenges include:

- › skills and labour shortages in most trades and professions
- › poor health and safety performance including mental health
- › a slowness to innovate and adopt new technologies
- › a lack of collaboration and knowledge sharing to take the sector forward

- › fragmented leadership in an industry of many small players
- › a poor understanding of risk and who should bear it
- › poor business management practices
- › low margins
- › a lack of clear and consistently applied regulations
- › poor procurement skills
- › distrust between parties

These issues add up to stagnant productivity and consequent higher costs, and also contribute to damaging business failures. They also affect the industry's ability to provide the quality houses and infrastructure we need to support our growing and changing population.

There is no one silver bullet to fix these issues — some of which have been plaguing the sector for decades. This plan includes a range of programmes that will work together to meet the challenges and build a stronger and more resilient sector that works for the benefit of all New Zealanders.

### Employment

The construction industry employs 275,000 people or nearly 10% of the workforce.

*Stats NZ, Integrated Data Infrastructure 2019*

### GDP

The sector contributes around 7% of our total GDP.

*Stats NZ, GDP: National Accounts March 2019*

### Growth

The value of construction is expected to grow by 10% over the next two years to 2021.

*MBIE, National Construction Pipeline Report, July 2019*

## A HIGH PERFORMING SECTOR — GOALS AND OUTCOMES

The Construction Sector Accord set out a challenge to transform the sector into a high performing and more productive industry, a sector that has:

- › strong leadership, is connected and works collaboratively
- › a workforce of qualified, competent and skilled people
- › the confidence to invest in new technologies
- › a culture of thinking about cost across the life of a product
- › resilient businesses able to withstand setbacks and to adapt to change
- › a good understanding of risk and how it is best allocated

- › clear and effective regulations that support quality builds, the first time
- › a world-class health and safety culture
- › a well-planned and communicated pipeline of work
- › fair, transparent and consistent procurement practices
- › the reputation as a great place to work

This Transformation Plan was developed with a vision to enable a successful construction sector with these characteristics. The Accord recognises government and industry must work together to lead this transformation, and that transformation can only happen when everyone takes part.

### Accord outcomes

The Accord identified specific outcomes for workers, customers, businesses, the government and for all New Zealanders. The programmes in this plan have been selected and designed to contribute to these outcomes.

| New Zealanders  |  |   |   |
|---|--|---|---|
| Safe, healthy and durable homes, buildings and infrastructure that support the wellbeing of our communities.  |  |   |   |
| <p><b>Workforce</b></p> <p>Safe, secure, rewarding careers</p> <ul style="list-style-type: none"> <li>› Job security</li> <li>› Career pathways and opportunities to upskill</li> <li>› Trusted and respected professions</li> <li>› Greater diversity</li> <li>› An environment that supports thriving mental health and wellbeing</li> <li>› Increased earning power</li> </ul> | <p><b>Industry customers</b></p> <p>Functioning competitive market</p> <ul style="list-style-type: none"> <li>› Quality durable builds</li> <li>› Value for money</li> <li>› Fit-for-purpose options for products and services</li> <li>› Consistent, reliable and timely project delivery</li> <li>› Transparency</li> <li>› Capacity and flexibility to meet customer needs</li> </ul> | <p><b>Industry</b></p> <p>Sustainable, resilient, successful businesses</p> <ul style="list-style-type: none"> <li>› High performance culture</li> <li>› Workforce capacity and capability</li> <li>› Greater pipeline certainty and confidence to invest for the future</li> <li>› Profitability and stronger balance sheets</li> <li>› A collaborative industry</li> <li>› Trust and confidence in the construction sector</li> <li>› Fair risk allocation</li> <li>› All our people home safe every day</li> </ul> | <p><b>Government</b></p> <p>A construction sector that supports the wellbeing of New Zealanders</p> <ul style="list-style-type: none"> <li>› Healthy and safe Kiwis</li> <li>› Access to quality affordable housing</li> <li>› Stable, healthy and more productive construction sector</li> <li>› Strong, reliable and enduring infrastructure</li> <li>› Better whole-of-life value for taxpayers</li> <li>› Sustainable buildings and infrastructure created with minimal environmental impact</li> </ul> |

## MEASURING CHANGE

The Accord leadership group will oversee the delivery and monitoring of the Transformation Plan. Programmes will be reviewed each year to assess their progress and impact, and contribution to toward the vision and goals of the Accord.

### Accord goals

**Increase productivity** – a productive value-driven and efficient construction sector able to produce more for each dollar spent.

- › Measured through labour productivity statistics produced by Stats NZ. As construction is a labour-intensive industry and labour is a key drive of sector performance, labour productivity statistics will give the best and simplest measure of productivity change.

#### Labour productivity

From 1998 to 2018, labour productivity in construction increased on average 1% each year, agriculture 2.4%, and retail 2.9%.

*Stats NZ: Industry Productivity Statistics 2018*

**Raise capability** – A skilled and capable workforce that meets New Zealand’s growing housing and infrastructure needs.

- › Measured by the change in numbers of people participating in construction-related study or training, and by the change in total proportion of people in the sector who are qualified. Data will be provided by MBIE.

**Improve resilience** – Strong, sustainable businesses with the capacity to innovate and adapt to change and disruption.

- › Measured by how long businesses remain in operation. This will be measured with data from Stats NZ.

#### Business resilience

Of the construction firms established in 2009, only 23% were still trading in 2019.

*Stats NZ: NZ Business Demography*

**Restore confidence, pride and reputation** – A high-performing, transparent and trusted sector we can all be proud of.

- › Measured through sector surveys

## DEVELOPING A PLAN

Achieving the goals set out in the Accord requires an ambitious plan of action. The Accord created a firm foundation for this transformation plan, with actions focused on achieving the vision of ‘A high performing construction sector for a better New Zealand’.

### Leadership

The development of this plan was led by an Accord Steering Group of 24 industry and government leaders. Steering Group membership reflected the broad ecosystem that makes up the construction sector and included representation for workers, professional services, planners, developers, regulators, constructors, trades, clients and health and safety.

Work on the plan was overseen and supported by the Accord Ministers – the Ministers of and for Building and Construction, Economic Development, Education, Health, Housing and Urban Development, Infrastructure, and Workplace Relations and Safety.

### Sector input

The success of any transformation plan depends on meaningful engagement with the sector. This plan evolved through a series of workshops with Steering Group members, and around 200 other sector leaders and others who work within the sector. Six workshops were held in Auckland, Wellington and Christchurch to ensure a country-wide perspective was captured. Additional input was gained through a survey that received 230 responses.

The workshops were focused on agreeing the major challenges in the sector and considering what industry and government initiatives would address them. During this part of the plan’s development, the nine Priority Work Areas identified in the Accord were condensed into six workstreams.

Many of the initiatives contributed to outcomes in more than one work area, and for ease of implementation these were consolidated into:

- › Leadership
- › Business Performance
- › People Development
- › Health, Safety and Wellbeing
- › Regulatory Environment
- › Procurement and Risk

During the development process, the plan was tested and critiqued by an independent Challenge Panel of sector experts\*, who considered whether it was bold enough and whether it would have the desired impact.

### Assessing initiatives

The workshops generated more than a hundred new initiative ideas, and these were then considered alongside the initiatives already set out in the Accord and work underway within the sector. Initiatives were assessed in terms of how well they aligned with the Accord, their likely outcomes, the number of stakeholders they would impact, and the level of confidence that the initiative was achievable.

### Accord initiatives

Government committed to more than thirty initiatives in the Accord, and most of these are already underway. There is an update on many of these initiatives in the workstream section of this plan and several of the transformation programmes are about building on these. Industry committed to four initiatives in the Accord and these have been rolled into this plan for implementation.

---

\* Francois Barton – Executive Director, Business Leaders’ Health and Safety Forum  
 Martyn Dunne – independent consultant  
 Chelydra Percy – CEO BRANZ  
 David Warburton – independent consultant

## A NEW CULTURE

Transformation is about creating a different and better future. To achieve this we must do more than implement programmes to make improvements in certain areas, we must work to change the way people behave so a new culture is created.

The construction sector is often described as ‘adversarial,’ – there are often winners and losers where there should be a culture of collaboration, fairness and shared success. It’s common behaviour for people to inappropriately shift risk onto the next person, and this must change so people take on the risks that they are in the best position to manage. There is also a culture of focusing on the lowest possible up-front price when long-term value is the more sustainable and ultimately more cost-effective approach. And there is the ‘she’ll be right’ culture that persists on many projects when it comes to health and safety and is reflected in our poor statistics. These are examples of behaviours this plan will work to change.

Change happens through leadership, collaboration and communication, and through holding people to account for their actions. It happens when people no longer accept the status quo and are willing to do things in a different way.

*“Transformation is not something the government or an industry body can do to a sector, it’s something all participants must make happen. We all need to ask ourselves – what can I change and how can we work together differently?”*

Peter Reidy, Accord Steering Group co-chair and CE Fletcher Construction

This plan includes specific initiatives aimed at changing the way people behave in the sector and an overall plan for ensuring the necessary behaviour change outlined on page 21.

## TRANSFORMATION IN ACTION

### Armstrong Downes and Ministry of Education – partnering for success

William – I’ve been thankful we’ve used Armstrong Downes in the building project at Karori West Normal School as they have been walking the talk on the Accord. From the very beginning of the project we (Ministry of Education) have been in conversation with Armstrong and we built up a level of trust which allowed us to distil all the information we need to get the project underway in a very efficient manner, which has been best for both of us. This is one of the big advantages of the Accord – bringing the parties together early to start building a good relationship – this is one of the keys to a successful project.

Phil – We’ve been hugely appreciative of the Ministry’s approach to the procurement process and especially the management of risk. To be honest it was like a breath of fresh air – we have never encountered it before with any government department. One of

the biggest issues in the procurement of government projects has been the race to the bottom which has forced the lowest price to win out. There are also examples of very complex contracts that allocate risk unfairly. I hope the transformation plan will see more government agencies working with us like the Ministry of Education has on this project.

**Phil Hebden, Commercial Manager at Armstrong Downs Commercial and William Whewell from the capital works division of the Ministry of Education**



## Accord principles

The Accord ignited the beginning of a new culture by defining a set of principles for the sector to work by and hold each other to account against. The principles urge people to think differently about how they behave and make decisions — focusing on pushing boundaries and being bold, building trusting relationships, valuing people and acting with collective responsibility. The Accord called for government and industry to set aside differences and work together for the benefit of the full construction ecosystem.



### Build trusting relationships

- › Being accountable
- › Acting with empathy and respect
- › Focusing on delivering quality
- › Being transparent on the value and allocation of risk
- › Working in a collaborative and inclusive way



### Value our people

- › Fostering careers to nurture the industry's future
- › Recognising and rewarding effort and success
- › Embracing diversity and inclusion
- › Supporting better outcomes for Māori
- › Prioritising health, safety and mental wellbeing
- ›



### Be bold

- › Fostering innovation, and research and development
- › Not accepting conduct and culture contrary to the principles of the Accord
- › Sharing success and learning from failure
- › Focusing on whole of life value when buying and building



### Act with collective responsibility

- › Planning for the long term
- › Acting as a custodian for the sector's future
- › Sharing knowledge and lessons learnt
- › Prioritising environmental sustainability

*"I am motivated to be a change maker within my organisation"*

78% of Accord survey respondents



# TRANSFORMATION PLAN SECTOR ACTION



# TRANSFORMATION PLAN AT A GLANCE

This plan focuses on programmes within six workstreams that will lift the performance of the sector and achieve the outcomes set out in the Accord.

## Workstreams and programmes



# 01 WORKSTREAM: LEADERSHIP

Change is driven by leaders. However the diverse ecosystem that makes up the construction sector has created more than 150 industry bodies and this fragmentation impacts on the sector's ability to lead and sustain change. There is a lack of a single vision for the sector and subsectors can have difficulty aligning interests with others and taking a holistic system view.

This lack of a coordinated leadership platform makes it challenging to get momentum and agreement on change. It makes it difficult for government to understand what's best for the sector and who best to engage with when considering major reforms. It also creates a siloed mentality where best practice and lessons learned are not readily shared to benefit the greater ecosystem.

## WORK UNDERWAY

The Accord programme has brought sector leaders together in an unprecedented way, creating a new pan-industry and government leadership group, working in genuine partnership toward a common vision. Members of this sector-nominated group report the Accord principles are already having an impact on the way they are leading their organisations and this behaviour change is expected to cascade down through the industry.

In 2019, the leadership group role was fulfilled by the Accord Steering Group and in 2020 this will develop into an enduring leadership group to work alongside existing industry bodies to drive transformation of the sector.



## TRANSFORMATION PROGRAMMES – LEADERSHIP

### Accord leadership group

**Transformation will only be achieved through effective cross-government and industry leadership.**

An Accord leadership group will be established to implement and monitor the Transformation Plan, in partnership with industry groups and government agencies. The Accord Steering Group will fulfil this role until June 2020. The full function and design of an ongoing leadership group will be agreed early in 2020 and will include consideration to expanding it to a wider sector membership group.

The leadership group will:

- › ensure the timely and effective implementation of the Transformation Plan
- › engage with the sector to promote ownership and behavioural change in support of the Plan and improved performance across the sector
- › define what membership of the Accord means
- › develop leaders within the sector to help drive change

### Beacon projects

**There is limited sharing of innovation and good practice across the sector.**

The leadership group will identify beacon projects within the sector and use them to create, promote and share good practice, and to demonstrate the principles of the Accord in action. Beacon projects will be stages or elements of larger projects and demonstrate innovation or good practice in one or more of:

- › use of technology in design or construction
- › environmental sustainability in design or construction including energy use and waste reduction
- › procurement and subcontracting
- › workforce development and training

Projects will be targeted from across the vertical, infrastructure and residential sectors. The first beacons will be from the Ministry of Education and Watercare and will provide examples of good procurement practices that demonstrate the principles of the Accord.

### Sector culture change

**A coordinated plan is needed to drive the change in culture required to transition to a high-performing sector.**

The leadership group will design and implement a programme to inspire and foster behaviour change in the sector. This will include actions to develop strong leadership, create a personal commitment to change and a shared accountability for success that will ultimately help lift sector performance.

### Major reform engagement model

**Engagement between government and industry on major sector reforms is not effective due to the large number of organisations and lack of a co-ordinated sector leadership voice.**

The leadership group will develop a better way for industry and government (central and local) to engage and work together on major reform programmes that impact the sector. Based on Accord partnership principles, the new model will provide a more collaborative and connected voice to help design and implement solutions for the construction sector.

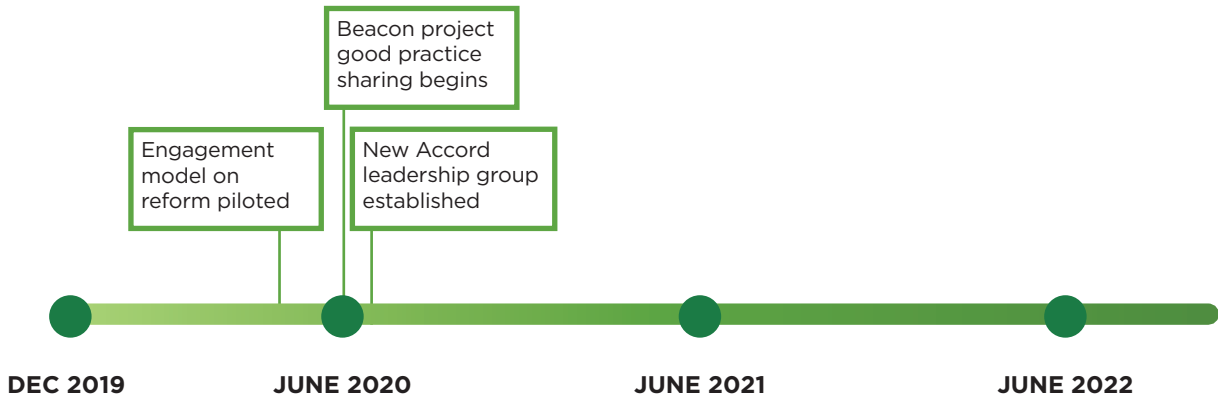
The model will be used for all programmes that support the Accord outcomes such as the Resource Management Act reform programme and the work of the new Kāinga Ora agency. The intent is to engage more actively early in the process, before options are presented to Ministers or for wider consultation. This does not replace existing consultation, but better informs it.

### Accord goals

- › Raise capability
- › Restore confidence, pride and reputation

### Accord outcomes

- › Collaborative industry
- › Trusted and respected professions
- › Transparency
- › High performing culture



## CREATING SECTOR CULTURE CHANGE

Changes in the way things are done and how people act need to come from within the sector. Delivering the initiatives in this plan is one half of creating change — the other side involves everyone doing their part to multiply positive behaviours and create a ripple effect across the sector.

Transformation is driven by strong leadership and a personal commitment to change. Accord leadership group members will drive behaviour change within their networks and initiate the difficult conversations — challenging behaviours that don't align with the Accord. They will engage sector leaders to build momentum for change.

### Joining the Accord

Creating change is achieved through shared responsibility for success. Sector participants will be able to become members of the Accord and this will commit them to act in accordance with its principles. The leadership group will define what membership means and share this with the sector in early 2020.

### Supporting transformation

A core group of industry bodies, sector leaders and government agencies will be engaged to support the plan and its delivery, promote the Accord principles and provide feedback on the programmes.

Change will be achieved through lifting sector performance. Case studies of Accord principles in practice will be published to provide exemplars of the type of behaviour the Accord wants to foster. These will be supported by toolkits for easy adoption by others. Success and progress will be celebrated and the achievements of this plan shared to reinforce the 'new normal' and lift the performance of the sector.

To help you understand what the plan means for you and how you can play a part in transformation, visit the personas on the Accord website [www.constructionaccord.govt.nz](http://www.constructionaccord.govt.nz).



# 02 WORKSTREAM: BUSINESS PERFORMANCE

Recent high profile failures of construction firms in New Zealand and their widespread impact have drawn a sharper focus to the business performance and behaviours of companies. In a booming industry it seems logical that businesses will be doing well, but there are several factors contributing to business vulnerability.

Many companies operate on low margins in order to secure contracts and when things change or go wrong, there is no built-in resilience. There is a poor understanding of good business practice in enterprises large and small, and limited sharing of lessons learned. Risk is particularly poorly understood and this leads to inadequate risk pricing, allocation and management.

Businesses need a forward view of upcoming construction projects to allow them to plan and have the confidence to invest in skills and technology, however the pipeline of work is unclear, uncertain and uncoordinated.

The availability of skilled staff also has a significant impact on business performance and this is addressed in the People Development workstream.

## WORK UNDERWAY

In the Accord, government committed to several initiatives to create a more visible and better planned pipeline of work to support industry.



New Zealand Infrastructure Commission created September 2019



First 'Infrastructure Pipeline' for five government agencies published in May 2019 and expanded in November to include ten additional crown entities and 500 projects. The pipeline can be viewed at [infracom.govt.nz/projects](https://infracom.govt.nz/projects)

The New Zealand Infrastructure Commission — Te Waihangā is working to develop a long-term infrastructure strategy for New Zealand including a pipeline of upcoming projects. They will provide advice and best practice information including promoting a whole-of-life cost approach to infrastructure procurement.

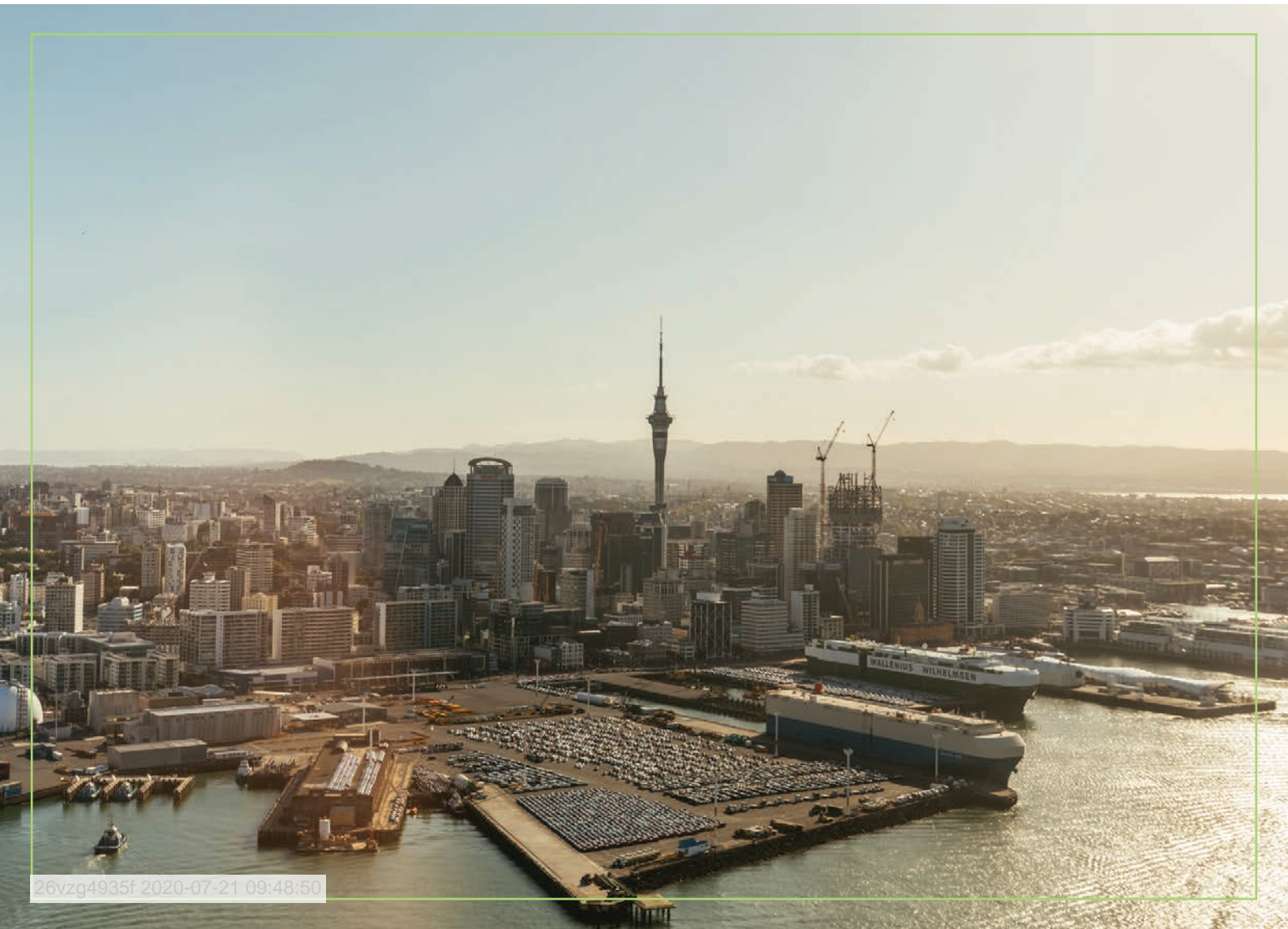


Kāinga Ora created 1 October 2019

The new Kāinga Ora agency, incorporating Housing New Zealand, HLC and Kiwibuild, is working to enable a more cohesive approach to delivering housing and urban development in New Zealand and to increase the pace, scale and certainty of work.

Government has also begun establishing partnerships with local government agencies and mana whenua under the Urban Growth Agenda, to better plan and commit to a long-term coordinated approach to infrastructure development.

The actions in this plan will build on the pipeline work underway and focus on promoting better business practices in industry through sharing information, and on providing education around risk.







# TRANSFORMATION PROGRAMMES - BUSINESS PERFORMANCE

## Enhanced construction pipeline

Industry needs a long-term, comprehensive and more certain pipeline of work to help plan and manage business investment decisions.

The leadership group will work with the New Zealand Infrastructure Commission and Kāinga Ora to enhance the current pipeline including:

- › providing ongoing feedback to the Commission on the usefulness of the pipeline and suggest amendments
- › adding non-government and Kāinga Ora (public housing) projects into the pipeline
- › better scheduling of projects that takes supply and demand into account, to promote more efficient use of resources.

## Promote better business practice

It is difficult for businesses to access information on how to run a successful and high-performing construction-related business.

The leadership group will work with industry to:

- › collate and analyse existing good practice information with a focus on quality throughout the project lifecycle
- › publish and share good practice information
- › identify any gaps in good practice materials
- › monitor adoption of good practice standards.

## Education programme on commercial risks

There is limited knowledge of how to identify, manage and fairly allocate commercial risks in the construction sector.

The leadership group will work with the Vertical Leader's Construction Group to develop and roll out an education programme on identifying and managing commercial risks.

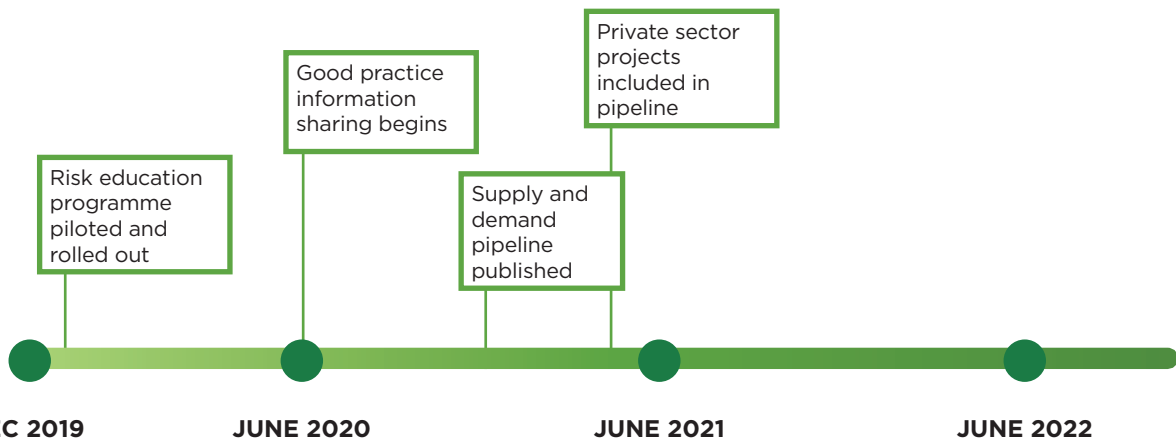
### Accord goals

- › Raise capability
- › Improve resilience

### Accord outcomes

#### Sustainable, resilient, successful businesses

- › High performance culture
- › Greater pipeline certainty and confidence to invest for the future
- › Profitability and stronger balance sheets
- › Trust and confidence in the construction sector







A photograph of two construction workers wearing orange hard hats and high-visibility green safety vests. They are standing on a wooden structure, possibly a scaffolding or formwork, at a construction site. The worker on the left is looking down, while the worker on the right is looking towards the camera.

# 03

## WORKSTREAM: PEOPLE DEVELOPMENT

The construction workforce must grow and develop so it can meet the demand for new houses, buildings and other infrastructure. There are shortages of people and skills throughout the sector and not enough capacity to deliver the growing pipeline of construction projects. The shortages run across the trades and professions and include plumbers, electricians, builders, engineers, planners and project managers.

To build a sustainable workforce, the sector must promote and value diversity and ensure that everyone can see a good career path in construction.

Building and construction methods are also evolving in response to new technology, innovation, and environmental and policy changes. The construction workforce needs to evolve alongside these developments to ensure it has the skills to support a modern, productive industry.

***By 2022, it's estimated the sector will need 15% more plumbers, 14% more electricians and 12% more civil engineers.***

*MBIE - Future demand for construction workers, July 2017*

## WORK UNDERWAY

Government and industry are committed to growing a future-focused construction workforce for New Zealand centred around the ‘three Cs’ – capacity, capability and careers. There is already significant work underway with the government’s Reform of Vocational Education (RoVE) programme and the Construction Skills Action Plan (CSAP) [www.skillsinconstruction.co.nz](http://www.skillsinconstruction.co.nz). These are focused on quickly growing construction worker supply and skills, and ensuring the industry has the workforce it needs now and in the future.

In the Accord, government committed to help grow the workforce through six CSAP initiatives. All of these are now underway:

### **Mana in Mahi programme to connect construction employers with beneficiaries**



more than 90 people placed in work

### **Skills for Industry pre-employment and in-work training funding scheme**



150 people placed in construction work

### **Flexible immigration settings**



3,200 migrants working in construction-related occupations

### **Jobs and Skills Hubs**



two new hubs now operating in Auckland

### **New Government Procurement Rules**



now require government agencies to consider staff training and development in their construction project tender evaluations

### **Promoting construction careers and supporting the development of micro-credentials**



launched online careers hub ‘Get ahead with a construction career.’ Piloting micro-credentials for prefabricated building construction skills.

Other ongoing government initiatives in the Accord working to boost investment in skills and training are KiwiBuild, and the Kāinga Ora Innovate, Partner Build programme which ensures there are a minimum number of apprentices working on each state housing project.

Government is also working to better protect migrant workers from exploitation through the Temporary Migrant Workers Review programme.

The actions in this plan work to build on these and other programmes and to better connect industry to the initiatives and to ensure they meet industry needs.



## TRANSFORMATION PROGRAMMES - PEOPLE DEVELOPMENT

### Build workforce capability

There are skills gaps across the construction process including trades, architects, planners, engineers, and project managers.

The leadership group will work with the Tertiary Education Commission, MBIE and wider industry to identify skills gaps and assess these against the education and training programmes available. New initiatives will be developed to address gaps, targeting the areas of highest need across the vocations and professions.

There will also be a focus on broader professional standards for the industry and life skills that support a successful career in construction eg literacy, numeracy, and skills in contracts, risk and business management. The new initiatives will include building capability in different population groups including women, Māori and Pasifika.

### Shape the Reform of Vocational Education

**Government is reviewing the way vocational education is delivered in New Zealand and this process needs coordinated input from industry.**

The leadership group will canvas industry views and provide a leadership voice into RoVE. It will collaborate with the Ministry of Education, Tertiary Education Commission and MBIE to help shape the design of the vocational education system. This includes:

- › advocating for the new Workforce Development Council for construction to be set up first
- › partnering with the Regional Skills Leadership Groups and Workforce Development Councils to ensure the skills people are being trained in match what the industry needs. The partnership will also work to develop a better skills forecast and skills supply plan. This will ensure the right numbers are being trained in the right skills, and will support a more productive and resilient workforce.
- › working with the Tertiary Education Commission and vocational educational experts to co-design and establish the Construction Centre of Vocational Excellence to drive innovation and excellence in vocational teaching and learning.

### Long-term workforce plan

There is no long-term sector workforce plan, resulting in a mismatch between workforce supply and demand.

The leadership group will develop a long-term vocational and professional workforce plan, which will include industry-led initiatives, to ensure a better match between the supply of people and skills and the construction pipeline of work. This will include defining the role of migrant workers in providing a more sustainable workforce.

### Boost Construction Skills Action Plan

**To increase the number of skilled workers in industry, government has implemented the Construction Skills Action Plan (CSAP). Industry now needs to actively support it.**

The Accord leadership group will support and use the programmes in the CSAP by providing jobs and training through the Mana in Mahi and Skills for Industry programmes. They will connect to the Jobs and Skills Hubs and support the youth transitions initiative. The group will work to promote construction careers. The wider industry will be urged to support the CSAP.

#### Accord goals

- › Increase productivity
- › Raise capability

#### Accord outcomes

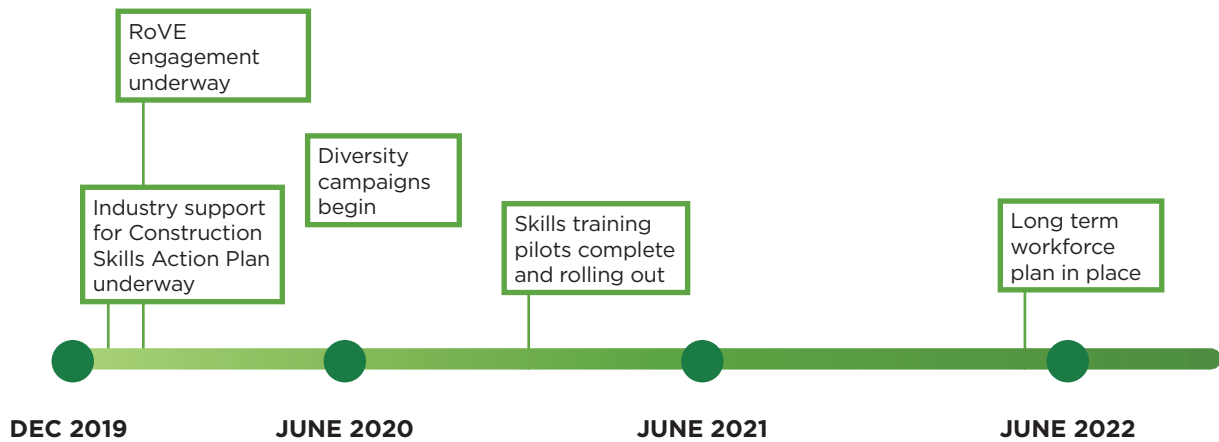
##### Safe, secure, rewarding careers

- › Increased workforce capacity and capability
- › Job security
- › Career pathways and opportunities to upskill
- › Greater diversity
- › Increased earning power

**Diversity in construction**

Construction is not perceived as an attractive career choice for many, meaning the industry is missing out on a large potential pool of workers and diversity is limited. For example women make up only 18 per cent of the construction-related workforce and Māori and Pasifika are underrepresented in the skilled professions.

The leadership group will work with government and industry to build on existing diversity campaigns that promote construction as a good career option. They will consider initiatives for ensuring a workplace culture that welcomes and values diversity, and identify and share good practice. The initial focus will be on increasing the participation of women in construction through supporting the Women in Trades, and Engineering New Zealand's The Diversity Agenda initiative.



**Transformation in action**

**CURRIE CONSTRUCTION – GROWING THE EAST COAST WORKFORCE**

Our company fully supports the Construction Sector Accord and its aim of developing a sustainable model for creating a skilled workforce. Collectively we need to lift performance in this sector, particularly in the skills area. We believe Currie Construction has a responsibility to the community to help develop a skilled workforce in our region – Tairāwhiti/ East Coast. We currently have 15 staff working through their apprenticeship and we take on three to five new trainees a year.

Most people we have taken on have worked out great, with many of them going on to start up their own business. It's an investment for us that comes with a cost, but we believe without this commitment to a sustainable workforce, the whole region would suffer. We're proud to say that over the last 35 years we've trained nearly a hundred apprentices and are helping create a healthier construction industry here.

It's pleasing to see the industry and government getting together to develop a plan to encourage broad sector participation in doing things better. I'm looking forward to seeing how the new Regional Skills Leadership Groups and Workforce Development Councils will help encourage more businesses to take on apprentices, and boost the number of skilled workers in the more isolated regions like ours.

**Mark Van Wijk – Project Manager at Currie Construction, Gisborne**







# 04 WORKSTREAM: HEALTH, SAFETY AND WELLBEING

Good health and safety practices are critical to a successful construction industry. In 2018, eight construction workers lost their lives on the job, and there were more than 37,000 injuries. Each year, hundreds more suffer ill-health or die from conditions such as cancer and respiratory disease due to exposure to chemicals, dusts and fumes, or develop heart conditions related to stress. In addition, the high demands of construction work, and business instability, can contribute to poor mental health and suicides.

With the increasing demands on the construction sector to build more houses and infrastructure faster, our health and safety practices, culture and performance, must improve.

*“The intensified construction and infrastructure demands over the next decade will cause avoidable harm to New Zealand workers, their families, and our communities.”*

Business Leaders Health and Safety Forum,  
2018

Improvements must also be made to compliance processes. The health and safety prequalification system assures clients that contractors have the right health and safety systems in place before they are awarded contracts. However there are many different prequalification schemes that contractors must engage with which leads to inconsistencies and inefficiencies, and cost businesses time and money.

A safe and healthy workforce supports an efficient and productive industry. Good health and safety at work is a shared responsibility — workers, managers, owners and government all need to play their part.

***6.9 % of New Zealand men who commit suicide are employed in the construction industry — the highest of all sectors, including farming.***

*Suicide Mortality Review Committee 2016*



## WORK UNDERWAY

In the Accord, industry committed to supporting Construction Health and Safety New Zealand (CHASNZ) to take a leadership role in improving health and safety performance in the industry. CHASNZ are working on several fronts including consistent standards, client leadership, workforce competency, changing attitudes, and mental health.

Government is reviewing health and safety regulations for managing common workplace risks such as using machinery and equipment, and it's expected changes will take effect in 2021. In addition, the Government Procurement Rules have been changed to better support health and safety at work, and guidance has been published on incorporating good health and safety practices in procurement.

WorkSafe are implementing health and safety Worker Engagement and Participation projects at the Dunedin hospital rebuild and at Auckland's City Rail Link. They are also providing support to CHASNZ to implement mental health programmes including Mates in Construction, and supporting their work to simplify the health and safety prequalification system for construction companies. NZTA are also working to improve their prequalification process.

The transformation programmes in this workstream focus on improving our health and safety statistics through building on programmes that work to change the culture, and by changing systems to make compliance easier.







# TRANSFORMATION PROGRAMMES - WORKSTREAM HEALTH, SAFETY AND WELLBEING

## Enhance health and safety programmes

Surveys show an attitude of complacency toward health and safety is creeping back into the industry and this culture needs to be addressed.

The leadership group will support and build on existing health and safety initiatives including the CHASNZ client leadership programme. The group will also ensure health and safety is considered throughout the lifecycle of all their projects, and support and promote the adoption of 'safety in design' principles.

## Support mental wellbeing programmes

Recent statistics highlight the high rate of suicide among construction workers.

The group will support the implementation of the CHASNZ mental health in construction strategy programmes including the Mates in Construction suicide prevention initiative. They will also implement a mental health action plan within their own organisations and encourage others to do the same.

## Standard health and safety prequalification system

The number of different prequalification schemes mean the system can be expensive, inefficient and inconsistent.

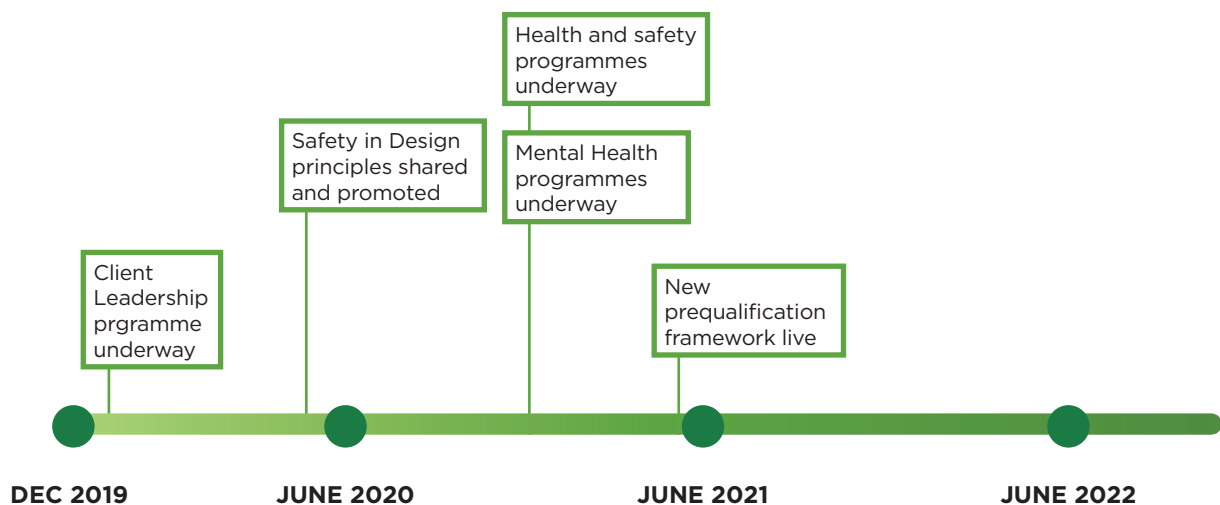
The leadership group will work with CHASNZ to promote a standardised health and safety prequalification system.

### Accord goals

- › Raise capability
- › Increase productivity

### Accord outcomes

- › An environment that supports thriving mental health and wellbeing
- › All our people home safe every day





## 05

WORKSTREAM:  
REGULATORY  
ENVIRONMENT

A strong construction industry needs clear and efficient regulatory systems that protect people from harm, but don't act as a barrier to innovation and delivery. An improved regulatory system will help drive the right behaviours in the industry so it can operate at the optimum level needed to meet our future construction needs.

The building consenting system needs to be more consistent, easier to understand and more certain. Most building consents in New Zealand are granted by one of the 69 city or district councils, each with their own systems and capabilities.

There are some inefficiencies in the system that create delays and unnecessary barriers to building.

When seeking industry input to regulatory reform, the high number of individual industry bodies, each with their own agenda, can make it difficult to gain consensus for change.

***“Clear and robust building laws are critical to enabling the building sector to reach its full potential. Reforms aim to deliver safer and more durable buildings, a high performing building sector, and better efficiency in our regulatory system.”***

*Hon Jenny Salesa, Minister for Building and Construction*



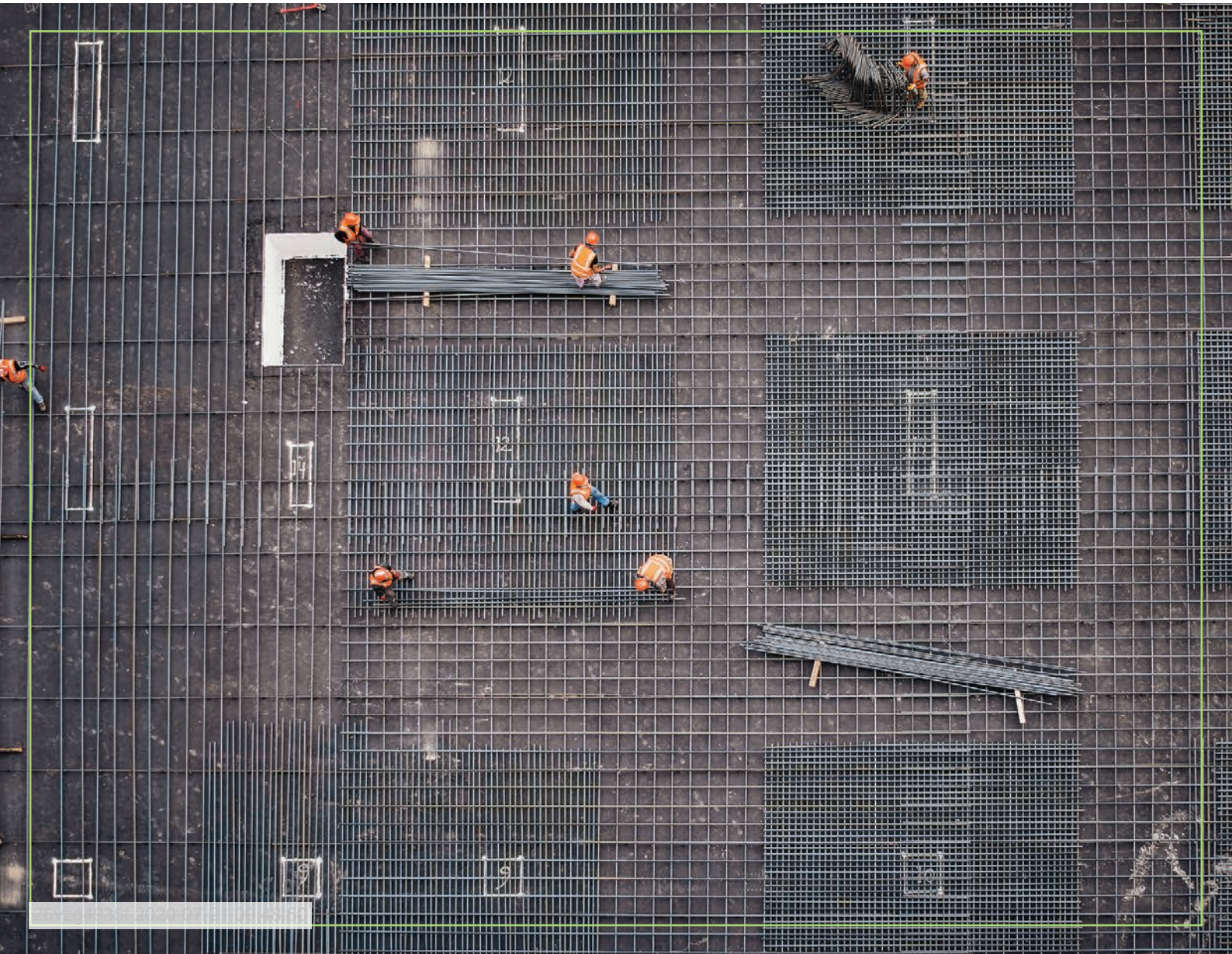
## WORK UNDERWAY

The government is proposing amendments to the Building Act 2004 to better ensure the industry has skilled and accountable people, fit-for-purpose building products and efficient processes — including for consenting. The Building System Legislative Reform programme proposes to lift the efficiency and quality of building work and provide fairer outcomes if things go wrong. The reforms include:

- › strengthening the laws around building products
- › making it easier to consent for modern methods of construction, including off-site manufacture
- › strengthening regulations around some occupations
- › proposals to address issues with risk, insurance and liability in the building system

The Building Code is now being updated twice a year. Work is underway to ensure minimum performance requirements are clear, to better allow for innovation, and to ensure the Code is more future-focused — including a technical programme for high density housing.

The transformation plan actions focus on creating a single leadership voice to help shape and drive the legislative reform and partnering to develop a new model for consenting.





# TRANSFORMATION PROGRAMMES - REGULATORY ENVIRONMENT

## New building consenting model

With 69 separate consenting authorities, the building consent process is inefficient, and inconsistent across regions, contributing to reduced productivity.

The leadership group will work with MBIE and local government to develop a new model for building consenting. The model will improve the process for providing assurance that building design and construction comply with performance requirements in the Building Code.

In developing the model, the roles and behaviours of all participants in the process will be considered. Opportunities will be identified to improve the way people interact with the system and fulfil their responsibilities, such as by providing quality information.

Better use of digital technology to promote speed and accuracy in the consenting process will be considered.

## Support building legislative reform

The government is proposing major changes to New Zealand’s building laws to improve the quality of building work. Industry input into the programme has sometimes been conflicting and does not always take a holistic view.

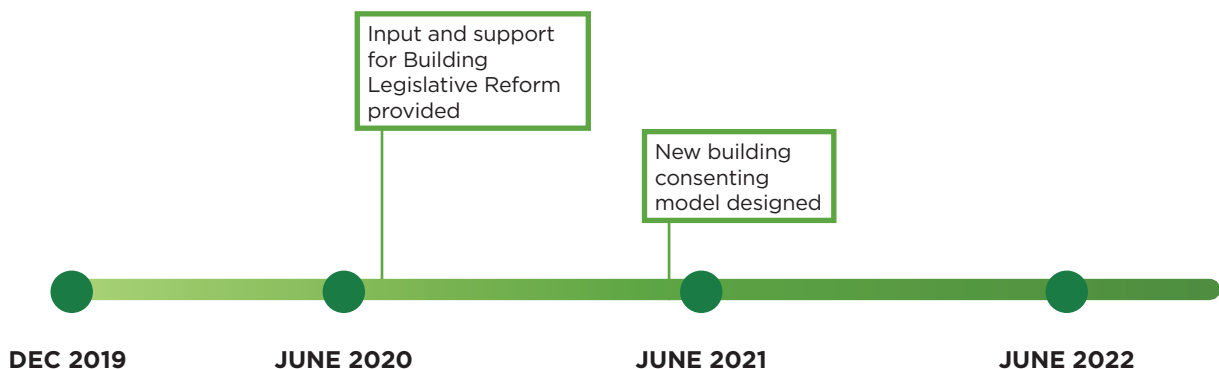
The leadership team will provide a single leader’s voice ensuring a coordinated industry response to the Building System Legislative Reform programme . They will work with wider industry to raise awareness and understanding of the changes and to support their implementation.

### Accord goals

- › Increase productivity
- › Restore confidence, pride and reputation

### Accord outcomes

- › Quality durable builds
- › Fit for purpose options for products and services
- › Consistent, reliable and timely project deliver





**Transformation in action**

**HAMILTON CITY COUNCIL**

**- MAKING COMPLIANCE EASIER FOR CONSTRUCTION FIRMS**

One of the main issues that construction firms face when dealing with local government is the level of bureaucracy and regulation they face. It's very challenging for businesses to fully understand what's required of them, especially considering there are different policies, regulations and District Plans in each region. One of the first steps for local government in implementing change and to improve the overall construction ecosystem is to admit we are part of the problem, and acknowledge that some of our practices aren't fit for purpose and are not best practice.

At Hamilton City Council we're trying to resolve these problems in a number of ways - we've reviewed our processes and the District Plan and we've talked to the sector— developers, builders, planners and others — and about how things could be better. We've identified several areas for improvement to reduce red tape including changing the District Plan. This will be great for the construction industry as it will reduce the level of input needed from council and improve the efficiency of the system.

I'm excited about the opportunity this plan presents to make changes to the building consenting system. Our work so far means we've already got good ideas to feed into the thinking about how to create a more efficient consenting system for New Zealand.

***Richard Briggs, Hamilton City Council CE and Local Government NZ rep on the Accord Steering Group***





# 06

## WORKSTREAM: PROCUREMENT AND RISK

Good procurement practices are an important element of a high performing construction sector — getting it right at the front end helps set up a project for success and ensures quality outcomes and value for money in the long term.

Central government makes up around a fifth of the construction spend in New Zealand, and it has the potential to take a lead in setting procurement standards in the industry — improvements will impact on behaviour across the sector. There is evidence of poor procurement practice and inadequate levels of skill in both government agencies and in the wider sector. The 2018 Entwine report into public sector procurement of major infrastructure projects identified several weaknesses including:

- › agencies choosing ‘cheapest’ over ‘best value’— creating greater whole-of-life costs
- › a lack of understanding of the risks in construction projects and who is best able to manage them
- › a culture of mistrust between government agencies and industry

### Complex contracts

Another common issue is the use of unnecessarily complex contracts that contain many non-standard conditions. The lack of transparency can lead to parties unwittingly taking on risk they are not prepared for and increases the likelihood of disputes. Often roles and responsibilities are not clear which means when things go wrong people are able to avoid accountability, leaving others to pick up the costs.

The sector must work toward a culture of greater transparency where the risks are clear and parties accept those risks they are in the best position to manage.

### Retentions

Another focus area for industry is the retentions scheme in the Construction Contracts Act that protects payments to subcontractors in the event of a head contractor collapse. While the law does provide protection for subcontractors, it is not always working in the way it is intended.

*“The number one factor identified as contributing to disputes is a lack of understanding of contract obligations within the industry, with bespoke contract amendments reportedly not always read and understood by all parties.”*

Russell McVeagh survey, 2018

## WORK UNDERWAY

In the Accord, government committed to reviewing the Construction Procurement Guidelines which set out the standards of good practice for government agencies to apply to their construction projects.

Programmes in this plan will focus on improving procurement guidance and advice, creating greater transparency particularly around risk, and a better deal for subcontractors.



Updated Guidelines were released in September 2019 including guidelines aimed at improving project briefs and risk transparency, and at shifting the focus from lowest price tenders to best long-term value. The government's general Procurement Rules were also updated, and these now require agencies to follow the Guidelines for construction projects over \$9 million, and to submit an assessment of their overall procurement performance to MBIE so areas for improvement, including in construction, can be identified.







## TRANSFORMATION PROGRAMMES - PROCUREMENT AND RISK

### Promote good procurement practices

Poor procurement practices can have a far reaching impact – creating the conditions for poor behaviour across the stages of the project, contributing to business instability, and leading to sub-optimal quality builds and greater whole-of-life costs.

The leadership group will work with MBIE and the NZ Infrastructure Commission to promote and refine the Construction Procurement Guidelines on an ongoing basis. This will include feedback on their effectiveness to ensure they continue to support sector stability and growth, and quality construction work.

The group will monitor and report on the procurement performance of government agencies on large construction projects and their adherence to the Construction Procurement Guidelines.

The leadership group and Accord members will adopt the Guidelines in their own non-government contracts.

The leadership group will work with the New Zealand Infrastructure Commission to implement a leadership programme for construction procurers – to improve procurement skills in both the public and private sectors.

### Fair and transparent contracts

**Contracts and subcontracts can be unclear and risk unspecified or unfairly allocated.**

The leadership group will work with central and local government agencies that procure construction works to ensure their contracts:

- › are transparent on risk and where it sits
- › limit the number of special conditions
- › hold all consultants to account for their work including designers, project managers and quantity surveyors
- › ensure any Engineer to the Contract is fully independent
- › include provisions for efficient and fair dispute resolution

These standard contract principles will be promoted for use in both the public and private the sector.

### Subcontractor assurance – payment, retentions and risk

Sub-contractors face a number of commercial challenges. Risk is often unfairly passed to them, payments are delayed and retentions are sometimes not available when head contractors collapse.

The leadership group and Accord members will be required to:

- › be transparent about the risks sub-contractors need to price and manage, and ensure risk sits with the party best able to manage it
- › pay subcontractors within 30 days
- › comply with the retentions scheme. In addition they will hold retention money in a separate account and proactively share accounting records.

The leadership group will work with MBIE to ensure improved compliance with the retentions law and will explore ways to strengthen the scheme such as increased penalties for non-compliance, and removal of Accord membership.

### Procurement advisory panel

**Government agencies are often unable to find procurement advice or expertise such as Engineers to the Contract.**

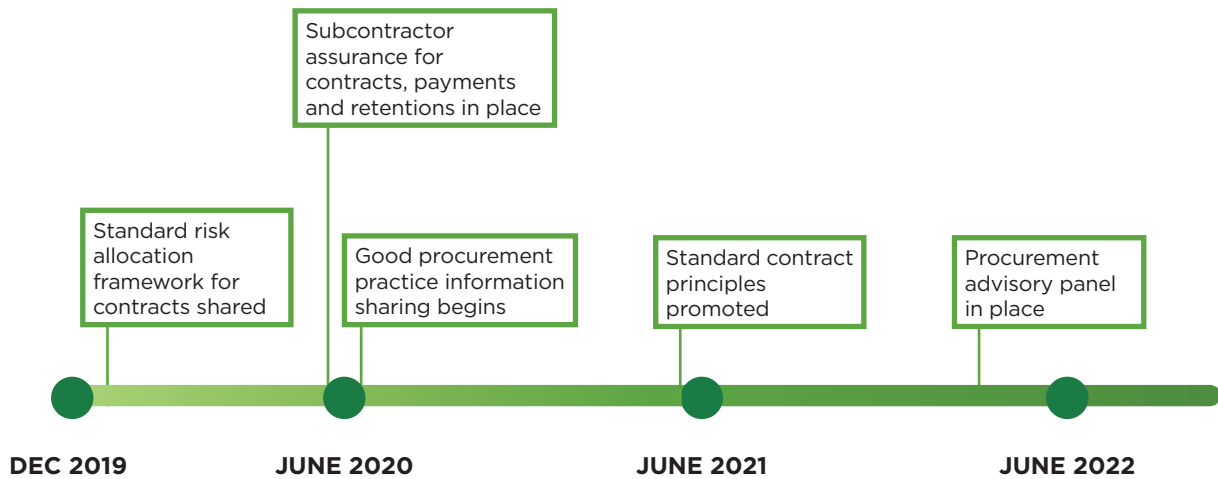
The NZ Infrastructure Commission and MBIE will establish a panel of individual and independent experts who meet specified competency requirements and who can be procured by agencies for the role of advising at the project governance level or as an Engineer to the Contract.

### Accord goals

- › Increase productivity
- › Improve resilience
- › Restore confidence, pride and reputation

### Accord outcomes

- › Trust and confidence in the sector
- › Fair risk allocation
- › Transparency
- › Stable, healthy and more productive construction sector
- › Better whole-of-life value for taxpayers



## Transformation in action

### KIWIRAIL - MAKING CONTRACTS CLEARER

The Construction Sector Accord is already having an impact on the way we work with construction companies. KiwiRail is a big client to the industry and the Accord started me thinking about the types of contracts we have been asking our construction partners to sign up to. When I took a closer look at them, I admit I was surprised at the number of special conditions that they included. Although we use standard 3910/15 and ACENZ contracts we had progressively added pages of special conditions.

KiwiRail has pledged to materially reduce the number of special conditions in its contracts. It's not an easy thing to do, because you can always conjure up an event where a particular clause "might come in useful". However unless we think about the contractor/client relationship more holistically and get the balance back into the contracts, we are not serving anyone's interests effectively.

We will be happy to share our experiences with the Accord programme once we've taken this work a little further.

**David Gordon, Chief Operating Officer: Capital Projects at KiwiRail and Accord Steering Group member**





# TRANSFORMATION ACTION TIMELINE

The programmes in this plan will be implemented over three time horizons – to June 2020, June 2021 and June 2022.

| WORKSTREAM                                | PROGRAMME  | JUNE 2020  |
|---|--|--|
| <b>01</b><br>LEADERSHIP                   | Accord leadership group                                | Accord leadership group set up and driving transformation                  |
|   | Beacon projects  | Beacon project good practice shared with sector                            |
|   | Sector culture change                                  | Sector change management plan in place and supporting transformation       |
|   | Major reform engagement model                          |  |
| <b>02</b><br>BUSINESS PERFORMANCE         | Enhanced construction pipeline                         | Monitoring and feedback process for pipeline implemented                   |
|   | Promote better business practice                       | Good business practice information released and promoted                   |
|   | Education programme on commercial risks                | Commercial risk management training piloted and rolling out                |
|   |  |  |
| <b>03</b><br>PEOPLE DEVELOPMENT           | Build workforce capability                             |  |
|   | Shape the Reform of Vocational Education               | RoVE engagement underway   |
|   | Long term workforce plan                               |  |
|   | Boost Construction Skills Action Plan                  | Industry support for Construction Skills Action Plan underway              |
|   | Diversity in construction                              |  |
| <b>04</b><br>HEALTH, SAFETY AND WELLBEING | Health and safety programmes                           | Client health and safety leadership training developed and rolled out      |
|   | Mental health initiatives                              | Mental health strategy in place. Mates in Construction pilot completed and |
|   | Standard prequalification system                       |  |
| <b>05</b><br>REGULATORY ENVIRONMENT       | New building consenting model                          |  |
|   | Support building legislative reform                    |  |
| <b>06</b><br>PROCUREMENT AND RISK         | Agree and adopt good procurement practices             | Leadership programme for construction procurers launched and rolled out    |
|   | Fair and transparent contracts                         | Standard risk allocation framework for contracts developed and shared      |
|   | Subcontractor assurance – contracts, payments and risk | Subcontractor assurance initiatives in place                               |
|   | Procurement advisory panel                             |  |

JUNE 2021

JUNE 2022

Engagement model on reform agreed and underway

Supply and demand pipeline published

Private sector projects included in pipeline (if feasible)

Pilots for new skills building initiatives completed and rolled out

Long term workforce plan in place

Diversity campaigns underway including promoting women and youth into construction

'Safety in design' principles shared and promoted

and expanding

Standardised prequalification framework live

New model for building consenting developed for consultation

Ongoing industry input and support for building legislative reform in place

ut

Construction Procurement Guidelines refined and promoted

Standard contract principles promoted

Procurement advisory panel in place

## WHAT YOU CAN DO

As a participant in the construction sector, you have an important role in transformation. To help you understand what the Transformation Plan means for you, visit the personas page on the Accord website **[www.constructionaccord.govt.nz](http://www.constructionaccord.govt.nz)**

To support positive change in the sector you and your organisation can:

- › Take a leadership role in driving culture change in your area - be a change agent in your organisation and in your interactions with others
- › Adopt the Accord principles on page 16
- › Call out behaviours you see that are contrary to the Accord - tell the person, your boss, or your sector body
- › Tell your stories about positive change to your industry organisation and to the Accord team so they can be shared more widely
- › Write and publish a personal or company pledge - “this is what I will do differently”
- › Follow the progress of the transformation plan on the Accord website and read the success stories
- › Support the programmes in this plan where you can
- › Talk about the Accord and what it’s trying to achieve - be a champion for change

Keep up to date on the Construction Sector Accord programmes and Transformation Plan on the Accord website. Join up to the mailing list so you can find out about progress and opportunities to take part in Accord programmes or events. This transformation programme needs your support.







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