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| Minister | Hon Poto Williams Hon Dr Megan Woods | Portfolio | Minister for Building and Construction Minister of Housing |
| Title of Cabinet paper | Construction Sector Accord 2021 Progress and Next Steps | Date to be published | 17 June 2022 |

List of documents that have been proactively released

| Date | Title | Author |
|---------------|---|---|
| April 2022 | Construction Sector Accord 2021 Progress and Next Steps | Office of the Minister of Building and Construction and Office of the Minister of Housing |
| 13 April 2022 | Construction Sector Accord 2021 Progress and Next Steps DEV-22-MIN-0082 Minute | Cabinet Office |

Information redacted

YES

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.

Some information has been withheld for the reason of free and frank opinions.

In-Confidence

Office of the Minister of Building and Construction and Office of the Minister of Housing (DEV) Cabinet Economic Development Committee


Construction Sector Accord 2021 Progress and Next Steps

Purpose

- 1 This paper reports on the progress the Construction Sector Accord made in 2021, as requested by Cabinet [DEV-21-MIN-0084]. It also provides an update on work underway to continue progress towards the Construction Sector Accord goals and vision after the completion of its current Transformation Plan.

Executive Summary

- 2 The Construction Sector Accord (the Accord), the Government's first Industry Transformation Plan, has continued to make headway towards its vision of a high performing construction sector for a better New Zealand.
- 3 The Accord has delivered a credible and valued platform for genuine partnership between government and industry on critical issues as well as transformation leadership across the sector. Early evaluation on programme outcomes notes the Accord has become the 'go-to place' for government and industry dialogue on building and construction sector matters.
- 4 In 2021, the Accord continued to lead a unifying construction sector response to Covid-19 whilst maintaining delivery across the Transformation Plan, the Accord's action plan to lift the performance of the sector.
- 5 The Accord and Transformation Plan have already directly contributed to positive behaviour and culture shifts within the construction sector. However, it will take more time to embed transformational changes across the wider sector.
- 6 With the current Transformation Plan concluding on 30 June 2022, we must now build on the foundations that the Accord has laid down and maintain momentum on the sector's transformational journey. We are currently developing the Accord 2.0 Transformation Plan, the next iteration of the Accord programme. We will table the Accord 2.0 Transformation Plan for endorsement at Cabinet in June.
- 7 Cabinet will be considering a Budget bid to provide funding for the Accord over the next three years. If the bid is successful, we will be able to fully commit to and progress the Accord 2.0 Transformation Plan.

- 8 Free and frank opinions
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Relation to government priorities

- 9 The Construction Sector Accord (the Accord) has helped promote Government priorities throughout the sector, supported the economic recovery from Covid-19 and continued the health response to the virus. The Accord's Transformation Plan contributes to many of the government's priorities, including:
- 9.1 improving health and safety;
 - 9.2 growing and developing a skilled workforce that promotes Māori, Pasifika and women;
 - 9.3 driving profitability and productivity through improving procurement practices and raising standards of leadership; and
 - 9.4 improving environmental sustainability, including supporting climate change goals.
- 10 The Accord is working closely with other agencies whose work intersects with or relates to the Accord's goals and activities. This joined-up approach ensures that we are leveraging the Accord's work and its partnerships, and not duplicating or undermining others' efforts.
- 11 For example, the Accord is supporting the residential sector market headwinds work the Ministry of Housing and Urban Development is currently undertaking, which relates to the work the Accord is pursuing on addressing emerging issues in the construction sector.

Background

- 12 The Construction Sector Accord (the Accord) is a shared commitment between government and industry to transform the construction sector.
- 13 As the Government's inaugural Industry Transformation Plan, the Accord has made the most progress across its transformation programme and is an exemplar for how government and industry can transform key industries and respond to critical issues through a partnership approach.
- 14 The Accord was established to respond to long-standing systemic issues in the sector, so that the sector can meet the increasing demand for housing and infrastructure, and to better support broader economic, social and environmental wellbeing outcomes.
- 15 The Accord launched in April 2019 with the vision of 'A high performing construction sector for a better New Zealand'. This Accord vision is backed up by four desired goals:
- 15.1 *Increase productivity*: a productive value driven and efficient construction sector able to produce more for each dollar spent.
 - 15.2 *Raise capability*: a skilled and capable workforce that meets New Zealand's growing housing and infrastructure needs.

- 15.3 *Improve resilience*: strong, sustainable businesses with the capacity to innovate and adapt to change and disruption.
- 15.4 *Restore confidence, pride and reputation*: a high performing, transparent and trusted sector we can all be proud of.
- 16 The Accord also developed a set of guiding principles for the sector to work by and hold each other to account against in order to affect culture change.¹
- 17 To deliver the Accord's long-term vision, the sector's challenges and opportunities are explored through research and analysis in order to understand the course of action required for sector transformation. Appropriate actions are set out in three-year actions plans, with the first Transformation Plan (released in January 2020) setting out the immediate steps required to support the sector towards transformation.

The Accord is helping address systemic challenges in the construction sector

- 18 The construction industry is New Zealand's fourth largest industry by GDP, employing nearly 10 percent of the workforce. There are several systemic challenges that are holding the sector back from high performance. Some of the challenges the sector faces include:
- *fragmentation, lack of collaboration and leadership*: the majority of the sector is made up of small businesses or sole trading operators, and there are over 150 industry bodies and sub-sector groups. This makes it difficult to achieve a single cohesive vision for the sector to work towards.
 - *low supply of skilled workers and a reliance on migrant workforce*: translating to capability and capacity constraints to delivery of the growing pipeline of projects.
 - *poor health and safety performance, including mental health*: the construction industry is responsible for the largest number of work-related claims to ACC. Mental health is a growing concern, as construction workers are more than twice as likely to die by suicide than the rest of the workforce.²
 - *low business resilience and short-term planning practices*: many companies operate on low margins to secure contracts, leaving no built-in resilience when things change or go wrong.
 - *cyclical boom-bust performance of the industry*: caused by economic expansion (boom) and contraction (bust) that occurs repeatedly
 - *poor procurement and risk management practices*: a lack of understanding of risk in constructions projects and who is best to manage it, combined with procurers often choosing the 'lowest cost' over 'best value'.
 - *lack of innovation*: the sector is slow to innovate and adopt new technologies or modern methods of construction, such as prefabrication.

¹ The four Accord principles are: Build Trusting Relationships; Value our People; Be Bold; and Act with Collective Responsibility.

² MATES in Construction research: <https://mates.net.nz/wp-content/uploads/2021/10/Construction-Industry-Suicides-Numbers-Characteristics-and-Rates-Report-prepared-for-MATES-in-Construction-NZ-August-2021.pdf>

- *low trust and confidence in the sector*: that results in lack of information sharing and unproductive behaviours across industry players.

19 The Accord has provided a catalysing platform for the sector to have discussions about how to address the systemic issues it faces. Through the Transformation Plan, the Accord has enabled government and industry to form a genuine partnership that delivers targeted initiatives to support the sector's transformation.

The Accord has provided a unifying platform to develop the construction sector's response to Covid-19

20 In addition to addressing systemic challenges, the Accord has played a vital role in maintaining a viable construction sector during the pandemic. The sector was better prepared to respond to Covid-19 disruptions during 2021, in large part because the Accord provided a forum for industry and government to communicate with one another, alert early headwinds and partner in implementing solutions.

21 The reallocation of resources to Covid-19 response and recovery meant the Accord had to divert some of its efforts away from its work on addressing systemic challenges under the Transformation Plan. However, refocussing the Accord's efforts on Covid-19 was the right thing to do. Free and frank opinions

22 Covid-19 has created new challenges as well as exacerbated pre-pandemic pressure points across the sector. These include:

- *supply chain issues*: international and domestic shipping and freight delays have contributed to building material shortages, price increases and long lead-in times
- *increased construction demand*: high levels of public and private investment into residential, commercial and infrastructure projects has led to a boom in demand for building products, both in New Zealand and overseas
- *workforce and skill shortages*: businesses are finding it difficult to find qualified staff due to domestic labour shortages and border restrictions
- *lockdowns (principally in Auckland)*: rapid rule changes restricted how and if construction businesses could operate and made inter-regional movement of workers and supplies difficult.

23 By leading the Covid-19 response, the Accord helped build cohesion and strengthen relationships across a highly fragmented sector. This response included:

- 23.1 developing a Covid-19 roadmap towards a sustainable construction sector, which provides a set of tools and protocols to allow construction activities to operate safely and sustainability in the presence of Covid-19. The roadmap helped the sector transition to the Covid-19 Protection Framework by putting into place appropriate health and safety protocols, construction-specific vaccination risk assessment protocols, and supporting vaccination uptake.

- 23.2 co-ordinating the industry's request for construction Managed Isolation and Quarantine (MIQ) places for critical building and infrastructure projects across New Zealand. The Accord has facilitated the provision of 60 places per month for critical construction workers under MIQ group allocations. This has provided greater certainty of pathway for workers with critical construction skills, particularly for major projects. Since August 2021, almost 400 workers have been supported to enter New Zealand through this allocation.
- 23.3 conducting research and informing cross agency work on building material-related supply chain challenges. A 2021 survey of over 600 construction business identified key issues around increases in the price of materials, shortages of materials, and a lack of experienced staff. The Accord briefed the Accord Ministers³ on these findings and provided advice around what could be done to mitigate supply chain impacts on the sector.

The Transformation Plan has made significant progress over 2021 to deliver a resilient and unified construction sector

- 24 Significant progress was made on delivering the Transformation Plan last year. The 2021 Progress Report covers workstream updates, events and trends from last year, including the Accord's Covid-19 response. The report is attached in **Appendix A**.
- 25 The Transformation Plan covers eight workstreams: Leadership; Business Performance; People Development; Health, Safety and Wellbeing; Regulatory Environment; Procurement and Risk; Environment; and Beacons.
- 26 Each workstream is led by one or more leaders from government and/or industry to drive action with shared accountability, in line with the Accord principles. This approach has brought industry, government, sector organisations and other stakeholders together to design and implement targeted initiatives to achieve the Accord goals.

There were many workstream highlights in 2021

- 27 The **People Development** workstream seeks to develop a skilled and diverse workforce that can meet the demand for new houses, buildings and infrastructure. There are shortages of people and skills throughout the sector and not enough capacity to deliver the growing pipeline of construction projects. A survey conducted last year by Civil Contractors New Zealand found that 90 percent of construction businesses were having difficulties recruiting in New Zealand.
- 28 An effective vocational education system is key to addressing the current people and skills shortages within the sector. The Accord has been a strong supporter of the Reform of Vocational Education (RoVE) programme, including by:
- 28.1 leading industry input into the establishment of the Waihanga Ara Rau Construction and Infrastructure Workforce Development Council. This industry-led body will work with industry, employers and training providers to understand the skills that are needed, lead the development of industry

³ The Accord Ministers include the Ministers for/of Building and Construction, Housing, Economic and Regional Development, Education, Finance, Infrastructure, Health, Local Government, Workplace Relations and Safety, and Transport

qualifications, set industry standards and assess training provision against these industry standards, and endorse vocational education programmes prior to them being approved by the New Zealand Qualifications Authority.

- 28.2 participating in the Construction and Infrastructure Centre of Vocational Excellence (ConCOVE). ConCOVE brings together construction and infrastructure industry, learners and vocational education providers to grow excellent vocational education provision and share high-quality curriculum and programme design. ConCOVE is undertaking five projects, focussed on workforce disruption, increasing industry participation, career progression, growing diversity, and environmental sustainability.
- 29 The Accord supported two Infrastructure Skills Centre pilots in partnership with the Ministry of Social Development, Fulton Hogan and Civil Contractors NZ. These six-week pilots were designed to give participants the skills needed to step onto a civil site. Learnings from the pilots will inform employer-led training development, as well as learner progression and training support. A longitudinal study on the development of programme graduates is being led by ConCOVE.
- 30 The **Business Performance workstream** focusses on lifting the performance and capability of construction companies by sharing good business practices. Over the last year, the focus was on building digital capability for small to medium enterprises, as well as piloting business performance measurement and benchmarking across the sector. Specific Accord initiatives included:
 - 30.1 partnering with the Registered Master Builders Association of New Zealand to develop a benchmarking tool to help specialist trades businesses to compare their financial, operational and commercial performance against their peers. The tool focusses on specialist trades because they are usually small businesses and small businesses tend to struggle the most in accessing information on how to run a high-performing construction-related business.
 - 30.2 partnering with the government-funded Digital Boost programme to develop construction-focussed digital learning material and build digital capability of small and medium businesses to improve productivity. The material is targeted at lifting business capability in a number of areas, including financial management, risk and project management, workflow and online presence. As of December 2021, the Digital Boost programme had 5,740 registered trainees in the construction/trade businesses category.
- 31 The **Health, Safety and Wellbeing workstream** aims to reduce the number of workplace accidents and create more supportive work environments. The Accord's focus is on lifting the health and safety capability of both employers and employees. In 2021, the Accord:
 - 31.1 funded MATES in Construction (MATES) to expand its mental health support programmes to reach more workers and sites. As of February 2022, the MATES programme has inducted 20,418 construction workers in its mental health and suicide prevention programmes.

- 31.2 partnered with Construction Health and Safety New Zealand (CHASNZ) to create Tōtika, a health and safety pre-qualification scheme that brings all health and safety pre-qualifications together under one single framework. As of 31 January 2022, Tōtika has signed up 40 clients and engaged 1,333 contractors.
- 32 The **Procurement and Risk workstream** focusses on building procurement skills, promoting clearer contracts, and a better deal for subcontractors. To promote good procurement practices within the sector last year, the Accord:
- 32.1 partnered with Te Waihangā New Zealand Infrastructure Commission to commission Standards New Zealand to undertake a long-awaited review of NZS 3910, an industry standard contract commonly used for major projects.
- 32.2 supported Engineering New Zealand in establishing an “Engineer to the Contract” panel. This engineering role ensures that the contract between the client and supplier is administered fairly, impartially and in a timely manner.
- 32.3 published new guidance to help government buyers and industry suppliers consistently apply broader outcomes in construction procurement. The Accord also published other procurement guidance, including on reducing carbon emissions and construction risk management.
- 33 The **Beacons workstream** identifies and promotes case studies to share with the sector, showing innovative approaches and exemplars of the Accord values. In 2021, the Accord:
- 33.1 presented the inaugural Beacons Awards, which took place at the 2021 Building Nations conference. The winner was New Plymouth District Council for its supply chain leadership approach, focussing on developing long-term supplier partnerships, and prioritising the safety and financial health of its contractors.
- 33.2 published seven exemplar case studies, which covered topics ranging from improving health and safety on site to reducing the volume of construction waste going to landfill. The case studies were showcased at the Beacons Awards. Videos illustrating the case studies have been viewed as many as 3,000 times each online and Beacon-related webpages have been viewed just over 8,600 times in total.
- 34 The **Environment workstream** focusses on improving environmental sustainability and supporting the construction sector to prepare for changes to the way we build due to climate change. BRANZ, a building and construction research organisation, led the environment workstream through its early scoping phase last year. This work culminated in a construction sector environment roadmap, with an implementation plan now in development.

We launched the Accord Network to connect all sector participants to lead culture change and transformation

- 35 Launched in August 2021 by Accord Ministers, the Accord Network has created a community committed to positive change in the construction sector by defining a

strong set of culture and practice expectations for all sector participants to work towards.

- 36 Accord Network members make a commitment to a high standard of behaviour and practices, which cover:
- *Procurement, contract and payment practices*: focus on value over cost, fair risk allocation and transparency, partnering principles, retentions, prompt payment.
 - *People development*: training and apprenticeships, monitoring compliance with employment standards, healthy site culture, inclusion and diversity.
 - *Health, safety and wellbeing*: site access, pre-qualification, reasonable timeframes, safety in design.
 - *Environment*: reduction of carbon emissions, energy minimisation, building performance.
- 37 The Accord Network differs from existing industry membership schemes as it is inclusive of all parts of the sector and any party can access targeted resources for free. A pan-sectoral approach to participation emphasises the system outcomes and benefits for all. The Network's supporting resources include:
- *Resource Hub*: connecting members to relevant and targeted resources to raise capability and performance across the sector. New resources will be developed based on common areas of under-performance across membership self-assessments. The Resource Hub will house material produced by the Accord, such as the Rapid Mobilisation Playbook, case studies, and links to external trusted resources and material.
 - *Accord Forum*: established to support a cross-sectoral response to the Covid-19 lockdowns. It is made up of government agencies, major commercial, vertical and residential businesses, local government, industry bodies and unions that helped inform the health and economic recovery efforts for the sector. The Forum meets and acts as a platform to raise issues and provide views on Accord initiatives for wider industry engagement.
- 38 Since the launch, 250 organisations have joined the Accord Network. The profile of membership is varied, with construction contractor or specialist trades (32 percent), professional services (26 percent), sector organisation or support body (18 percent) and client (8 percent) organisations making up the majority of members.

The current Transformation Plan's achievements set a strong pathway for further transformation of the sector

- 39 The current Transformation Plan concludes on 30 June 2022. The Transformation Plan includes 30 milestones across the eight workstreams. By the conclusion of the current Transformation Plan at the end of June, the Accord expects that it will deliver on 28 out of its 30 milestones.
- 40 We consider this to be a great achievement, especially considering the ongoing disruptions caused by Covid-19, as well as the long-standing systemic challenges faced by the sector. We also note that it will take some time until we see the full

impact of the Accord, given that many of its initiatives are only starting to flow through the construction sector.

- 41 Early evaluation carried out in late 2021 indicates that despite the disruptions, the Accord is building credibility through genuine partnerships and progress across Transformation Plan milestones.
- 42 Findings from the evaluation suggests the Accord and Transformation Plan have directly contributed to behaviour and culture shifts in the construction sector. This includes improved relationships and collaboration between government and industry, better procurement practices across government agencies, and greater awareness of the importance of addressing mental health, diversity and climate change.
- 43 These behaviour and culture shifts set a strong pathway for further transformation of the sector. If positive behaviour and culture shifts are to be embedded within the sector, we consider it is crucial that the Accord continues to build on its existing achievements, as well as its industry-government partnership approach.
- 44 A number of the current Transformation Plan's initiatives have set the groundwork for future work. For example, the Accord Network has set a strong expectation for how the sector will continue its transformation. Specific initiatives, including those focussed on diversity, skills and the environment, have also delivered roadmaps or strategies which indicate further action to be taken.

The Accord must continue its transformational mission to deliver a thriving, equitable and sustainable construction sector that enables the wellbeing of Aotearoa

- 45 There is still work to do to realise the Accord's vision and goals. Transformation, particularly of an industry as large and complex as construction, will take time. However, early signs of incremental change indicate that the Accord has already made inroads towards transformation.
- 46 To achieve greater transformative gains, momentum on the Accord needs to be maintained. We are currently developing the Accord 2.0 Transformation Plan, the next iteration of the Accord programme. Officials are currently in the planning phase and identifying where the Accord 2.0 Transformation Plan can best stimulate change that leads to transformation across the sector.
- 47 A consultation and co-design process has sought sector and agency input into the future of the Accord. The Accord has also undertaken research on industry transformation policies in other jurisdictions and canvassed the sector to gain feedback on the Accord's successes and challenges thus far. This will inform the initiatives that the Accord 2.0 Transformation Plan will undertake and how the Accord will work with others to deliver transformative change.
- 48 Clear priorities for the Accord 2.0 Transformation Plan have already emerged:
- retaining capacity to address critical sector-wide issues of the day (e.g. Covid-19, supply chain disruption, increased construction demand, worsening labour and skills shortages etc)

- Māori eco-system development, including developing SME capability, procurement equity and leadership development for Māori and Pasifika
- environmental responses, including use of sustainable products and practices, and building environmental leadership capability
- use of data, including early signals of crisis, system performance indicators and data flows across the sector
- innovation, digitisation and advanced construction methods and products.

Funding for the Accord beyond 2022

- 49 Funding for the Accord programme expires at the end of June 2022, which coincides with the completion of the Transformation Plan. Accord funding covers the delivery of Transformation Plan initiatives and the Accord programme management office, led by the Ministry of Business, Innovation and Employment (MBIE).
- 50 Total Accord funding to date has amounted to \$9.9 million. Of that, \$8.5 million was allocated during Budget 2020 from the Covid-19 Response and Recovery Fund to deliver the Accord Covid-19 response plan and the Transformation Plan across the 2020/21 and 2021/22 financial years [CAB-20-MIN-0219].
- 51 Over the same period, industry has made significant financial and in-kind contributions to lead the design and delivery of Accord Covid-19 Response Plan and Transformation Plan initiatives. Total industry in-kind and financial contributions towards Accord initiatives and projects is approximately \$2.45 million across the 2020/21 and 2021/22 financial years.
- 52 Given the successes of the Transformation Plan over the past three years and the need to continue the construction sector's ongoing transformation, we are seeking a further three years of forward funding for the Accord programme to build on the initiatives, partnership and goodwill we have already established.
- 53 The 2022 Construction Sector Accord Budget Bid seeks to continue progress towards the Accord goals and transformation objectives. This bid would support Accord programme delivery over the next three years, with programme management maintained by MBIE.

Next steps

- 54 We will table the Accord 2.0 Transformation Plan for endorsement at Cabinet in June.
- 55 Cabinet will soon be considering the Budget 2022 bid to provide funding for the Accord over the next three years. Cabinet is expected to agree to the Budget 2022 package in early April and make Budget announcements in mid-May.
- 56 If the bid is successful, we will be able to fully commit to and progress the Accord 2.0 Transformation Plan.

57 Free and frank opinions

Free and frank opinions

Financial Implications

- 58 There are no financial implications associated with this report back.
- 59 Existing funding for the Accord is coming to an end in June 2022. Renewed funding will be needed to support further work by the Accord. Cabinet will be considering a Budget 2022 bid to provide funding for the Accord over the next three years.

Legislative Implications

- 60 There are no legislative implications associated with this report back.

Regulatory Impact Statement

- 61 There are no regulatory implications associated with this report back.

Climate Implications of Policy Assessment

- 62 This paper does not require a Climate Implications of Policy Assessment (CIPA) as there are no direct emissions impacts associated with this report back.

Population Implications

- 63 There are no population implications associated with this report back.

Human Rights

- 64 There are no implications under the New Zealand Bill of Right Act 1990 and the Human Rights Act 1993.

Consultation

- 65 The Ministry of Housing and Urban Development, WorkSafe, Ministry of Education, Waka Kotahi New Zealand Transport Agency, Kāinga Ora, Ministry of Health, Te Waihanga New Zealand Infrastructure Commission, New Zealand Defence Force, Department of Corrections and Ministry of Justice were consulted on this paper.

Communications

- 66 The 2021 Progress Report was published on the Construction Sector Accord website in March 2022.

Proactive Release

- 67 I propose to proactively release this paper, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister for Building and Construction and the Minister of Housing recommend that the Committee:

- 1 **note** that last year, the Cabinet Economic Development Committee (DEV) invited the Minister of Housing and the Minister for Building and Construction to report back to DEV in early 2022 on the progress the Construction Sector Accord (the Accord) made during 2021 [DEV-21-MIN-0084]
- 2 **note** the progress made on delivering the Accord's Transformation Plan in 2021
- 3 **note** the Transformation Plan concludes on 30 June 2022
- 4 **note** that we are currently developing the Accord 2.0 Transformation Plan, the next iteration of the Accord programme to commence from 1 July 2022
- 5 **note** that we will table the Accord 2.0 Transformation Plan for endorsement at Cabinet in June
- 6 **note** that Cabinet will soon be considering a Budget 2022 bid to provide funding for the Accord over the next three years
- 7 **note** that if the bid is successful, we will be able to fully commit to and progress the Accord 2.0 Transformation Plan
- 8 Free and frank opinions

Authorised for lodgement

Hon Poto Williams
Minister for Building and Construction

Hon Dr Megan Woods
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