

Strengthening Victoria's Local Jobs First Act 2003 Consultation Paper

Master Builders Victoria Submission

1. Executive Summary

Master Builders Victoria is the leading voice and representative of the Victorian building and construction industry. Meeting Local Industry Development Plan (LIDP) commitments during project delivery is a multi-faceted challenge that businesses often face in the pursuit of strengthening local industry and job outcomes. Common challenges include supply chain constraints, such as limited local suppliers or insufficient capacity, which may require proactive efforts to identify and develop partnerships within the local business ecosystem. Skill shortages pose another hurdle, necessitating investments in training programs and collaborations with educational institutions to cultivate a skilled local workforce. Additionally, the cost implications of sourcing materials or labour locally compared to alternative regions, regulatory complexities, and the resource-intensive nature of monitoring and reporting on local content and job outcomes demand careful consideration and strategic planning.

Addressing these challenges requires a holistic approach that encompasses collaboration with local business networks, investment in skill development initiatives, and the establishment of robust monitoring systems. Businesses often navigate changing project scopes by maintaining open communication with regulatory bodies and stakeholders, allowing for necessary adjustments to commitments. Ultimately, successful adherence to LIDP commitments hinges on proactive planning, transparent reporting, and a commitment to building sustainable local partnerships. As industries evolve and regulations change, staying abreast of the latest developments and actively engaging with stakeholders remains paramount for organisations seeking to navigate the dynamic landscape of local industry development.

2. About Master Builders Victoria (MBV)

Master Builders Victoria (MBV) represents over 6000 stakeholders from across the building and construction industry. They range from large and small builders, tradespeople across the domestic and commercial sectors, and apprentices, suppliers and manufacturers.

The building and construction industry is one of the most important sectors of the Victorian economy. Our industry is the third-largest full-time employer in Victoria and supports 126,371 businesses, more than every other sector of the economy. The overwhelming majority of these businesses (98.8 per cent) are small, with less than 20 employees. Almost two-thirds of Victoria's construction businesses (62.7 per cent) have no employees at all, typically operating as sole traders.

Building and construction activity has one of the largest multiplier effects on the economy. This is because the structure of activity requires high domestic content for our industry's inputs, such as building materials, labour, and professional services. As a result, it is estimated that every \$1 million spent on residential building activity delivers \$3 million worth of economic activity.

Our sector delivers housing, parks, infrastructure, schools, hospitals, and other important amenities for the liveability of all Victorians, critical to our community's well-being and the state's future prosperity.

3. Enforcing Individual Commitments in LIDP

Meeting LIDP requirements can vary considerably depending on the geographic markets and the circumstances of contractors and suppliers. However, the general assessment is that LIDP requirements pose significant challenges to complete a tender on time. There is consensus among MBV members that enforcing commitments in LIDPs and enhancing the commissioners' authority is a positive development however, there are concerns with certain aspects of LIDPs that need to be addressed before moving forward.

MBV members have advised that the current system requires laborious manual entries of several trades into the commitment schedule, with some of them not necessarily relevant to the project. The level of detail required to provide suppliers' details and trade values before the tender is submitted is also a time-consuming hurdle. This represents a significant burden, particularly for smaller businesses. If re-designing the system, a more user-friendly feature would be to provide a downloadable spreadsheet of the commitment schedule that could be completed offline and uploaded to the system upon completion. Once uploaded, feedback could be provided by pre-existing benchmarked material. However, deferring the completion of the details of suppliers until after a tender is awarded and during the pre-contract stage would be preferred.

MBV advocates for a comprehensive review of contestable items, emphasising that the Industry Capability Network (ICN) has benchmarked over 150 such items without sharing the benchmarking details with contractors. This lack of transparency puts contractors at a disadvantage. Industry feedback suggests that contested items are sometimes assigned inaccurate values, either higher or lower than accepted industry norms. Despite contractors presenting evidence to substantiate their calculations, ICN does not consider these discrepancies in its assessments. The system also allows for insignificant contestable items to be provided with weighting that is not warranted. In addition to this, some contestable items have a disproportionately high weight despite being insignificant in terms of the overall project value.

The required percentage commitments on arbitrary trade values are often made randomly, based on past experience, rather than actual work plans, due to the early stage of the project. These are usually a tenth of a per cent of the contract value and are calculated only to ensure that the numbers add up. A solution to make these values more meaningful would be to simplify the trade value percentage used for commitment calculations.

Another challenge of the current system is the lack of transparent benchmarks or standard approaches to the process ICN assessors follow to conduct an assessment. Members have found that LIDPs assessments sometimes diverge based on very similar tender applications. A lack of consistency in approach has also been noted between an ICN assessor and an ICN contact. While an ICN contact may provide feedback on an LIDP, the final assessment, with in-situ decision notations, is not provided to the tenderer. This means the tenderer is not given the

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opportunity to review the final assessment, preventing them from potentially detecting or addressing any errors that might have occurred. Providing the final assessment could further advance LIPDs objectives by allowing the tenderer to have a better understanding of local capacity and improve future applications i.e. a continuous improvement model.

4. Commissioner Investigation and Reporting Powers

The potential introduction of new powers for the Commissioner to conduct site inspections, investigations, and reports on compliance with LIPDs and the Local Jobs First Act presents both advantages and considerations to be explored further. Granting the Commissioner enhanced oversight capabilities could significantly contribute to accountability, as direct site inspections and investigations enable timely identification of potential compliance issues. Objective reporting based on independent assessments can enhance transparency and trust in the enforcement process.

While the principles of the policy are sound, it is the administration that resulting in challenges for the building and construction industry. These issues must be addressed before granting the Commissioner new powers. Contractors are eager to meet targets, but the current system is not always supportive of proactive behaviour. Members of MBV have discovered that promoting the "local jobs first" policy and organising with suppliers to concentrate on local content, therefore surpassing a 91 per cent supply threshold, results in a 'high risk' score, leading to the loss of projects.

Additionally, it seems that there is already duplication in reporting requirements, with the Building Equality Policy and Construction Supply Register (CSR) requesting the same information to be reported into multiple systems and reports. Reporting can be time-consuming, leading to a loss in business productivity.

5. Consequences for Non-compliance with LIPDs and the Act

A careful balance must be struck between enforcement measures and fostering cooperation to address issues constructively. Increased enforcement and consequences for non-compliance with LIPDs and the Local Jobs First Act 2003, can only occur if reforms are implemented to improve the system's usability. The hurdles imposed by the current system need to be addressed either before or in conjunction with increased enforcement measures to ensure that the process becomes simpler and less time-consuming and, therefore, easier to comply with. Options like the use of supplier databases, tracking and direct reporting could facilitate the process.

MBV believes the Local Jobs First financial threshold should be adjusted for \$3 million or more in Regional Victoria and \$5 million or more for metropolitan or state-wide projects. MBV members indicate that the paperwork required for LIPD demands an average expenditure of at least \$4,000 per tender. For smaller projects, this additional expense can render the endeavour not worthwhile and unprofitable. Already, members are selectively

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opting which projects to tender, leading to reduced competition that may significantly impact contract prices and the overall work costs. Escalating costs of construction work also make the initial thresholds unfeasible.

Additionally, there is a need for flexibility in LIDP reporting, as member feedback emphasises the commercial confidentiality surrounding the supply chain. This makes it challenging to definitively determine the origins of products down the supply chain. For example, pinpointing the specific quarry from which the sand originates remains elusive.

6. Uniform and PPE Requirements on Strategic Projects

The challenge of mandating a percentage of uniform and Personal Protective Equipment (PPE) requirements on Strategic Projects lies in the restricted availability of local suppliers, especially in specific regions. In essence, it is almost impossible to provide Australian-made PPE on a large scale and with the breadth required to meet safety standards beyond items like hardhats or broad-brim hats. This is a formidable obstacle, as there are few manufacturers producing locally, and those that do often struggle to meet volume demands while being considerably higher in cost. The feasibility of achieving the required percentage of local content is contentious and could present a significant challenge.

A substantial investment in this industry sector would be necessary before implementing percentage requirements in the policy. While there are a few companies in this space, such as Threads and Tuffgard, it is advised that their capacity to scale up is not yet sufficient.

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