

Construction sector productivity

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Introduction



- ▶ To outline the NZIER research: brief, findings, and recommendations
- ▶ Process since the report was completed (November 2013)
- ▶ To outline other recent advice on constructions costs
- ▶ Future strategies and the Ministry's role

Why a project on construction cost escalation?



- ▶ Previous reviews (Ministerial Advisory Group, 2006) but need refresh
- ▶ Central and local government invest more than \$4 billion annually in the land transport system
- ▶ In order to ensure the greatest chance achieving of ‘value for money’
- ▶ This project was to better understanding of wider construction market conditions and effects on cost pressures in the road construction– sub-sector

The project brief

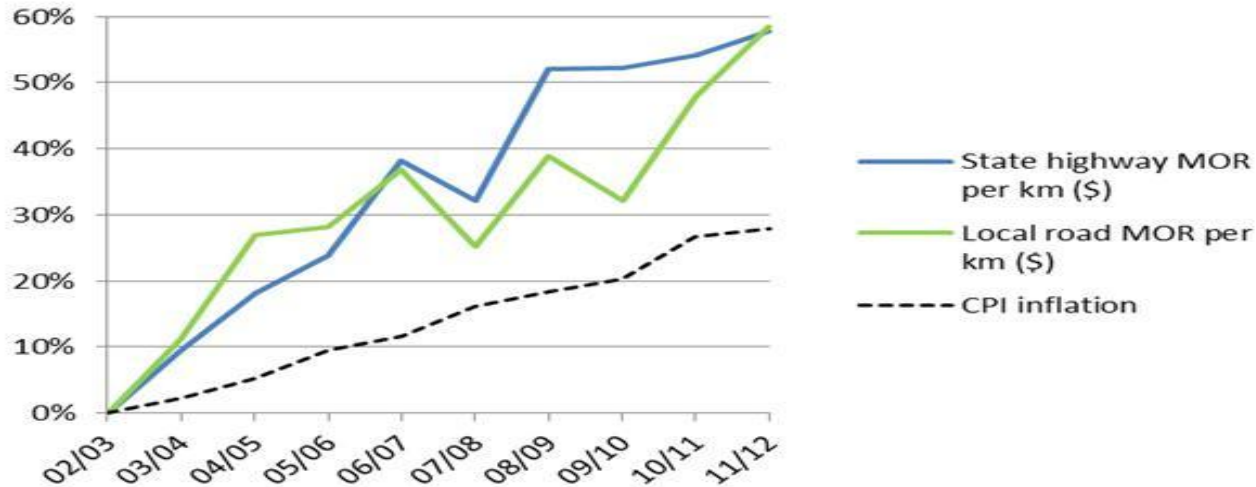


- ▶ What are the main factors underlying recent trends in the whole of life costs of road provision?
- ▶ How may these factors influence trends in the costs of roading provision?
- ▶ What processes could help to mitigate cost pressures?

Findings (1)



There is a cost escalation problem. In unit terms (i.e. per kilometre) costs of road building, maintenance and renewals increased by 58% over the 10 years to 2012 compared with a 28% in consumer prices.



Findings (2) Nine contributing factors



- ▶ Changes in overall demand for civil construction services
- ▶ Import cost increases
- ▶ Locally sourced input costs
- ▶ Structure and conduct of markets
- ▶ Wider regulatory environment
- ▶ Weak industry productivity growth
- ▶ Failure to properly identify service level improvements*
- ▶ Risk management and productivity incentives
- ▶ Cost impact of standards

Findings (3) Local and regional issues



- ▶ Markets for road maintenance materials are shaped by local rather than national factors
- ▶ So drivers of cost escalation can vary significantly within and between regions
- ▶ Industry structure:
 - ▶ Only two physical works providers (Fulton Hogan and Downer EDI) had a presence across the country
 - ▶ The rest compete regionally and some regions have dominant players that are unique to their regions
 - ▶ The asphalt market is highly concentrated as is ownership of bitumen storage supply
 - ▶ At a gate value of more than \$200 million, aggregate is an important input
 - ▶ The quarry market is local and highly concentrated, and becoming more so through: acquisitions, quarry closures, and regulatory obstacles to opening new quarries

NZIER's recommendations



1. Restructure NLTF activity classes to increase transparency: service level improvements versus cost increases
2. Disclose market information routinely
3. Improve monitoring for the possibility of collusion
4. Expose suppliers to market signals
5. Improve practice for standards and guidelines
6. Review procurement strategies in light of their impact on the structure, conduct and performance of localised markets

Working with the NZ Transport Agency



- ▶ In March the Minister requested NZTA review of NZIER's report and response
- ▶ NZTA provided a detailed response in June
- ▶ Mainly took on board NZIER's recommendations but differed with regard to risks associated with the move to long-term 'fence to fence' contracts
- ▶ NZTA detailed the measures they are taking or intend to take in response to NZIER's report and their own reviews

Where to next?

Thank you

