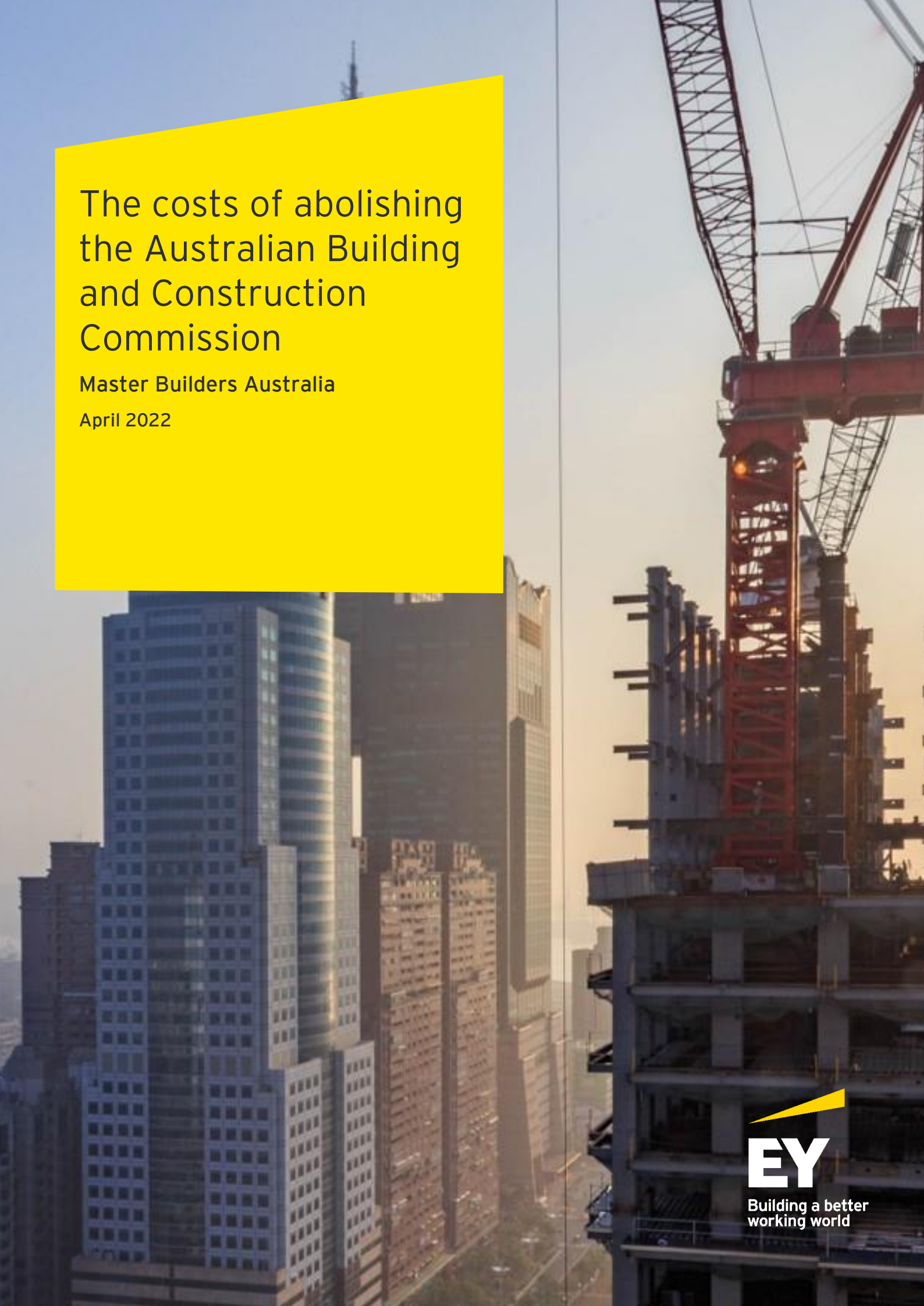
The costs of abolishing the Australian Building and Construction Commission

Master Builders Australia

April 2022



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Acronyms and definitions

ABCC	Australian Building and Construction Commission
ATO	Australian Taxation Office
BCII	*Building and Construction Industry Improvement*
BCIIP	*Building and Construction Industry (Improving Productivity)*
CEPU	Communications Electrical Plumbing Union
CFMMEU	Construction Forestry Maritime Mining and Energy Union
The Code	*Code for the Tendering and Performance of Building Work*
FTE	Full-time Equivalent
FWC	Fair Work Commission
GDP	Gross Domestic Product
IA	Industrial Action
IR	Industrial Relations
MBA	Master Builders Australia

Executive summary

Building and construction is one of Australia's largest industries, accounting for around 9% of economic output and employing 1.15 million people. The industry plays a pivotal role in building the productive capacity of the economy, helping deliver crucial infrastructure such as housing, roads, and hospitals, and supporting Australia's mining, manufacturing, and services industries. An efficient and well-functioning construction industry is crucial to the performance of the Australian economy.

The construction industry is overseen by a dedicated industrial relations regulator, the Australian Building and Construction Commission (ABCC), which emerged following a series of parliamentary inquiries and Royal Commissions into the construction industry's culture, efficiency, and productivity. The ABCC's purpose is to uphold laws and drive changes in behaviour and has powers to investigate breaches in Commonwealth laws on worksites covered by the *Code for the Tendering and Performance of Building Work* (2016) — which covers an estimated 20% of the industry including all large and Commonwealth-funded infrastructure projects — as well as investigate instances of wage theft and uphold health and safety regulations.

In the context of continuing debate around the future of the regulator, EY was engaged by Master Builders Australia (MBA) to examine the potential economic impact of abolishing the ABCC on Australia's construction industry, as well as the broader economy.

The construction industry is facing unprecedented demand coupled with key supply constraints

Australia's construction industry, like most of the economy, is operating at close to full capacity. The impacts of increased infrastructure spending and residential housing investment programs to stimulate the economy during the COVID-19 pandemic, and extreme weather events such as the 2019-20 bushfires and recent floods in Queensland and NSW have elevated demand for construction and building services.

However, this strong demand has coincided with major disruptions to global supply chains, with the price of crucial inputs like timber and steel increasing by 90% and widespread problems in material availability. Acute shortages of labour have exacerbated this problem to create a strained and inflationary business environment. Considering that the public infrastructure pipeline is set to grow even further over the next few years, this environment appears unlikely to moderate over the short to medium term.

This will be an ongoing challenge for construction businesses and their customers, with major risks of cost overruns and delays. Moreover, it aggravates the conditions that leave construction companies particularly vulnerable to industrial action on time sensitive and (often) fixed price construction projects. Any changes to the current industrial relations environment that result from abolishing the ABCC could create ongoing challenges which are likely to be more economically disruptive in the current business environment.

The ABCC works as a safeguard for efficiency and productivity in the construction industry

There are aspects of the construction industry which make it particularly susceptible to cost and project risks that can arise from delays, whether these stem from supply chain delays, industrial action, or worksite shutdowns due to COVID-19:

- **High levels of subcontracting** — Due to the risks and scale of many large projects, major contractors typically subcontract significant work to other businesses with niche skills. This

subcontracting is why the industry contains many small firms, which are hired to carry out specialised tasks on large projects.

- **Margins can be thin** — Profit margins for construction projects tend to be low and firms compete strongly on price. Small percentage deviations in estimated costs can make the difference between winning work or not. Often there is little room for error or negotiation as services are highly commoditised — the work and quality are specified in tender documentation — and the difference between hiring one contractor instead of another is often based on price.

- **Inherent uncertainty and risks** — In construction, every project has unique characteristics, including the nature of the site, the type of building or infrastructure, its design and the requirements of the client. Contractors rarely have the option of choosing the quantity they produce (end clients decide the level of output), apart from deciding whether to bid for projects. And combined with the challenges of sequencing many time sensitive and interdependent activities (e.g. concrete pours), any delays, however caused, can have major knock-on impacts and be very costly.

These issues are directly manifested in the industry's overrepresentation in company insolvencies and high levels of debt. The construction industry makes up one-fifth of all insolvencies, with the industry owing more than $7 billion to the Australian Taxation Office in 2020-21.

In light of these issues, the disproportionate levels of industrial action in the construction industry can aggravate existing risks and have major implications for workers, businesses and the broader economy. These features make the industry highly vulnerable to unlawful industrial action. Between December 2016 and January 2022, 80% of the ABCC's litigations involved some form of unlawful industrial action.

Discussions with construction businesses and an industry survey highlighted that the ABCC forms a critical safeguard for industry efficiency and performance. Stakeholders emphasised:

- The ABCC has been influential in changing behaviour and upholding the law in the industry, especially given widespread exposures to various forms of industrial action (almost 70% of construction businesses surveyed had experienced industrial action in the past four years). The ABCC was also found to be an effective and impartial mediator in disputes by making representations at worksites to advise all parties of their obligations, duties, and rights.

- Where industrial action has been experienced, businesses reported that project costs increased by an average of 9.9%, and there was a decrease in productivity in the order of 10%.

- The ABCC's regulatory activities were recognised to impose some minor costs on business. However, it was broadly accepted that if the body was abolished, this would lead to increased industrial action with attendant impacts on cost overruns and project delays. The scale of these impacts was considered material, with businesses indicating that, in the current operating environment, labour costs could increase by around 8.8%, coupled with a potential decline in productivity of around 9.3%.

Dismantling the ABCC could have major economic costs and risks

Given the process of building Australia's economic recovery from COVID-19 and current supply-side pressures, the consequences of abolishing the ABCC for the national economy were examined. The analysis highlights that any adverse impacts on the industry are likely to spill over into broader economic performance, damaging productivity and constraining future growth.

To the end of the next decade, and based on the potential industry impacts, abolishing the ABCC could lead to significant economic losses:

- Output in the construction industry could fall by around $35.4 billion by 2030 as higher construction costs makes fewer projects possible, and capital is reallocated to other economic activities.

- Overall economic activity could potentially decline by $47.5 billion by 2030 as higher construction costs and lower productivity act as a handbrake to other sectors. This is likely to adversely impact manufacturing and service businesses given the deep linkages these industries have with construction. Lower economic growth could see the loss of around 4000 full time jobs across the economy.

- Construction-related industries such as manufacturing and the services industry are likely to be adversely impacted by higher construction costs if the ABCC was abolished. The manufacturing industry is a major user of construction services for capital and infrastructure, which would be more costly if the ABCC was abolished. Further, the services industry, which predominately comprises financial services, public administration, healthcare, education, and defence, would also face additional cost increases. Financial services and public administration require large amounts of floorspace to house staff, healthcare relies on the construction and maintenance of hospitals, clinics, and aged care homes, education requires large-scale schools and facilities, and defence is dependent on the construction of facilities and bases. The cost of these construction-intensive functions would face inflationary pressures if the ABCC was abolished. For key parts of Australia's defence and care economies, this is estimated to come at significant cost to taxpayers.

- Based on the existing and forecast public infrastructure pipeline[1] and the estimated cost impacts derived from the industry survey, the potential cost to taxpayers if the ABCC was abolished could be in the order of $9.5 billion by 2029. This estimated cost is likely to rise should more Commonwealth-funded projects be announced over this period.

- Infrastructure and capital investments could become riskier as the cost of construction and potential for delays rises. If the ABCC is abolished there could be an estimated reduction in investment of $45.6 billion by 2030.

Table 1 details the potential economic impacts of abolishing the ABCC.

Table 1: The potential impacts of abolishing the ABCC

Economic variable	2025	2030
GDP ($)	-16.3 billion	-47.5 billion
Construction output ($)	-18.4 billion	-35.4 billion
Manufacturing output ($)	-4.8 billion	-13.1 billion
Services output ($)	-5.9 billion	-19.5 billion
Investment ($)	-24.7 billion	-45.6 billion
Employment (Full-time equivalent jobs per year)	-3,839	-3,950

[1] ABCC 2021c

1. Introduction

The strength of Australia's high-value and labour-intensive construction industry is essential to the ongoing performance of the Australian economy and delivering the critical infrastructure and built environment to enhance our standard of living. The building and construction industry is a vital part of Australia's economy and is the fourth largest industry by output and employment, contributing 7.4%[2] and 8.9% respectively.[3]

There are arguments that Australia's building and construction industry is unique in terms of unlawful industrial action, stemming from findings from the 2003 Cole Royal Commission. In subsequent senate inquiries and commissions, these findings have been debated.

As an enabling industry underpinning the wider economy, the Australian Government has a key stake in ensuring the capability, effectiveness and efficiency of the building and construction industry. Additionally, the Australian Government is a major client for the construction industry and has a keen interest in driving value for taxpayers and increasing industry productivity. Thus, as many have argued, the industry requires a specialist regulator to combat a culture of unlawful and disharmonious industrial relations.

The Australian Building and Construction Commission (ABCC) is the workplace relations regulator for the Australian building and construction industry. The role of the ABCC is to uphold the law and change behaviour to make the building and construction industry fair, efficient, and productive.[4]

A core function of the ABCC is ensuring compliance with the Code. The Code applies to all building industry participants that seek to be, or are, involved in Commonwealth funded building work. This is a significant and fast-growing part of the industry, particularly as government spending on infrastructure has increased in response to the COVID-19 pandemic and natural disaster events (i.e., the 2019-2020 bushfires).

In light of ongoing debate, Master Builders Australia (MBA) has engaged EY to examine the economic impacts of abolishing the ABCC on the Australian construction industry and broader economy. The study is forward looking, and examines a broad range of areas relating to the functions and powers of the ABCC, the role of the ABCC in ensuring compliance with laws and the broader cultural impact of the ABCC as an educator, advisor and investigator.

1.1 About the ABCC

The ABCC was established by the *Building and Construction Industry (Improving Productivity) Act 2016* (BCIIP Act). The purpose of the ABCC is to ensure compliance with the BCIIP Act, designated building laws and the *Code for the Tendering and Performance of Building Work 2016* (the Code) by all participants in the building and construction industry.[5] The ABCC achieves this by educating building industry participants and enforcing compliance with Australia's workplace laws. These laws include the BCIIP Act, the *Fair Work Act 2009* and the *Independent Contractors Act 2006*.

[2] RBA 2022

[3] APH 2021

[4] ABCC 2022

[5] The BCIIP Act defines a building industry participant to include: a building employee; a building employer; a building contractor; a person who enters into a contract with a building contractor where building work is carried out or arranged; a building association (such as a union or employer association); and an officer, delegate or other representative of a building association.

What is a Code-covered project?

The *Code for the Tendering and Performance of Building Work 2016*, referred to as "the Code", is a code of practice that sets out the Commonwealth Government's expected standards of conduct for all building industry participants that seek to be, or are, involved in Commonwealth-funded building work since the Code came into effect in December 2016.

Construction employees, employers, and contractors can become Code-covered entities if they tender for or express interest in any project which receives at least $10 million in Commonwealth funding, or more than $5 million in Commonwealth funding where this represents at least half of the total project cost. Once an entity becomes Code-covered, all future projects and works undertaken by this entity are also Code-covered.

As part of this analysis, EY estimated that roughly 20% of the construction industry was Code-covered, based on reporting from the ABCC.

By becoming a Code-covered entity, entities must comply with it, including but not limited to requirements to:

- Not engage in collusive tendering practices
- Comply with applicable laws and requirements relating to wages
- Only employ Australian citizens or permanent residents unless no Australian citizen or permanent resident is suitable for the job
- Ensure that employees have freedom of association
- Not engage in unlawful right of entry practices
- Not exert undue pressure or coercion to receive an above-entitlements payment for building work.

The functions of the ABCC include:

- Educative and advisory functions.

  In 2020-21, the ABCC provided 241 presentations to over 3,000 participants and addressed over 4,750 enquiries.[6]

- Investigative functions for monitoring compliance with, and investigating actions believed to be against, the BCIIP Act, a designated building law or the Code.

  In 2020-21, the ABCC assisted with over 4,800 code issues, finalised 270 code audits, assessed over 1,700 enterprise agreements, and recovered over $900,000 for over 1,400 employees.[7]

- Enforcing the BCIIP Act or any designated building law through court action or applying to the Fair Work Commission (FWC).
- Intervention and make submissions in court or FWC proceedings.

  Almost $3.5 million in penalties were imposed for non-compliance with the BCIIP Act, with a 94% success rate in proceedings finalised.[8]

[6] ABCC 2021b
[7] ABCC 2021b
[8] ABCC 2021b

These functions of the ABCC work to combat persistent issues within the construction industry, including unlawful industrial action, enforcing safety regulation due to the high-risk nature of works, and ensuring the cost-effective delivery of important public projects. Similar regulators such as ASIC for the banking industry and the Therapeutic Goods Administration for the healthcare sector have protected their respective industries from harmful activity through investigating misconduct and stimulating productivity. The case studies below provide examples of how the ABCC helps protect productivity and upholds safety in the construction industry.

Case study: Unlawful industrial action at the Forrestfield to Perth Airport Link

In 2019 the ABCC filed a legal case against the CFMMEU for an unlawful half-day strike the Forrestfield to Perth Airport rail link construction site. 39 employees engaged in the strike across three rail sites, with an additional group of employees leaving work after 'feeling unwell' and then attending a CFMMEU meeting.

This strike was deemed unlawful in Federal Court and penalties were imposed against the CFMMEU. This was considered to be unlawful industrial action as workers took no attempt to negotiate, even though there was an established dispute mechanism. Further, there was no immediate aspects to the issue that warranted the strike, including no safety risks, no work condition issues, and no issue of present payments. The construction company had already begun to engage and negotiate to resolve it.

As part of its mandate, the ABCC investigated an instance of unlawful industrial action on a worksite. This demonstrates the ABCC's role in safeguarding productivity in the industry.

Case study: Exclusion sanction against MCP for health and safety violations

Following ABCC investigations and their recommendation, the Minster for Industrial Relations issued a one-month exclusion sanction against Queensland company MCP Pty Ltd due to their violations of their health and safety duties. The ABCC found that a mobile concrete pump truck had fallen over at the publicly funded Toowoomba Second Range Crossing project after the concrete pump truck had been incorrectly set up. The truck with its 60-metre boom and crane fell over, and while no injuries occurred, was a dangerous safety hazard.

The ABCC found that MCP failed to comply with the *Work Health and Safety Act 2011* (Qld) and was accordingly fined and steps were taken to remediate its conduct. As per the Code, the ABCC referred the breach to the Minister who then imposed an exclusion sanction on the company due to the risk for serious injury and death. This sanction disallowed MCP from tendering for Code-covered works for one month.

As part of its mandate, the ABCC investigated and recommended sanctioning MCP for breaching worksite health and safety standards. This demonstrates the ABCC's role as a safeguard for safety in the industry.

There have been several iterations of the building and construction industry regulator over past years. These include:

- The Building Industry Taskforce: established as an interim body October 2002 and becoming a permanent taskforce in March 2004.
- The Office of the Australian Building and Construction Commissioner: established by the *Building and Construction Industry Improvement Act* (BCII Act) October 2005.

- The Fair Work Building and Construction: established by the *Fair Work (Building Industry) Act 2012* (FWBI Act) 1 June 2012.

- The Australian Building and Construction Commission: established by the BCIIP Act December 2016.

The ABCC has jurisdiction over worksites covered by the Code. The Code applies to any construction businesses that tender for or express interest in building work which has received at least $10 million in Commonwealth funding after 2 December 2016. Businesses that meet these criteria are referred to as Code-covered entities and are required to comply with the code on any new projects, including privately funded ones.

Review of the current public infrastructure pipeline indicates that around 20.9% of construction work is currently covered by the Code.

Each of the core regulatory functions of the ABCC emerged from a series of parliamentary inquires and Royal Commissions, including the:

- 1982 Winneke Royal Commission

- 1992 Gyles Royal Commission

- 2003 Cole Royal Commission

- 2009 report, *Transition to the Fair Work Act for the Building and Construction Industry*

- 2014 Parliamentary Inquiry into the Government's approach to re-establishing the ABCC

- 2015 Royal Commission into Trade Union Governance and Corruption

These inquiries and commissions investigated allegations of misconduct across a range of sectors and organisations including some focused specifically on the construction industry. While these investigations each came to their own conclusions, a common recommendation across some of these investigations was to establish an independent regulator to combat the alleged incidents of misconduct.

The 2003 Cole Royal Commission found that there was widespread misconduct in the construction industry including breaches of industrial law, disregard for court and tribunal orders, and inappropriate uses of industrial powers.[9] Based on these findings, the Commission recommended that an interim body should be established to "monitor conduct, to investigate and, if appropriate, facilitate proceedings to ensure adherence [in the building and construction industry] to industrial, criminal and civil laws".[10] In response to this recommendation the *Building and Construction Industry Improvement Act 2005* was passed to establish the ABCC.

The 2009 report, *Transition to the Fair Work Act for the Building and Construction Industry*, came to similar conclusions to the Cole Royal Commission. However, it recommended removing the ABCC and replacing it with a semi-autonomous division within the Fair Work Ombudsman to focus on the building and construction industry. The report highlighted the constructive work of the ABCC, stating that "the ABCC's work is not yet done … there has been a big improvement in building industry behaviour during recent years, [but] some issues remain."[11] Furthermore, the report recommended that the controversial compulsory interrogation laws be upheld, as "there is still such a level of industrial unlawfulness in the building and construction industry, especially in Victoria and

[9] Royal Commissioner 2015

[10] Royal Commissioner 2015

[11] Australian Federal Government 2009

Western Australia" that these laws were necessary.[12] This report and the Cole Royal Commission, while agreeing on the need for an industry-specific regulator with powers to investigate, monitor, and interrogate building industry participants, deviated in their approach to delivering this regulator.

The 2014 Parliamentary Inquiry into the Australian Government's approach to re-establishing the ABCC consulted with a broad range of union organisations, businesses, peak bodies, and members of the public. This Inquiry was tasked solely with scrutinising the *Building and Construction Industry (Improving Productivity) Bill 2013* and recommending whether to re-establish the ABCC as described by this legislation. The Inquiry recommended that the legislation not be passed, however no comment was made on the need for Fair Work Building and Construction which was legislated after the 2009 report mentioned above.

Finally, the 2015 Royal Commission into Trade Union Governance and Corruption, investigated a range of unions and sectors for misconduct. It found that, in agreeance with the Cole Royal Commission and the 2009 report, there was sufficient need for an industry-specific regulator to combat unlawful industrial action in the building and construction industry. The Commission also disagreed with arguments that the ABCC was inefficient, biased, or discriminatory against the construction industry. In its conclusion, the Commission recommends that "there continue to be a separate industry-specific regulator ... The reasons advanced also support its retention as an independent regulator, and not simply as part of the Office of the Fair Work Ombudsman."[13]

1.2 About this study

EY has been engaged by MBA to examine how the potential abolishment of the ABCC and its core functions is likely to impact Australia's building and construction industry and Australia's economy in general.

The study is a projection of potential future economic impacts and is thus exploratory in nature. It considered a broad range of factors relating to the functions and powers of the ABCC, the role of the ABCC in ensuring compliance with laws and the broader cultural impact of the ABCC as an educator, advisor, and investigator. The study assesses the economic impacts based on the current activities of the regulator and the expectations of the industry should the functions of the ABCC change.

The study has factored in a variety of sources including previous studies, publicly available literature and data, direct stakeholder consultation and an industry survey developed to inform this analysis.

1.3 The study methodology

The analysis adopted the following approach.

Background research

A review of available literature was undertaken to inform stakeholder consultations, survey development, and economic modelling on the impacts of abolishing the ABCC. This review considered previous studies, the background and history of the ABCC, literature related to industrial relations (IR) and the Australian building and construction industry.

Our review painted a picture of the current state of the building and construction industry. The industry is facing a period of strong demand, coupled with price and supply pressures on labour and materials. These pressures have and are likely to continue pushing up costs and squeezing profits, potentially leading to higher levels of business insolvencies. We also found that a sizeable part of

[12] Australian Federal Government 2009

[13] Royal commissioner 2015

the construction industry is subject to high levels of industrial action and a challenging industrial relations environment.

Stakeholder engagement

Engagement with key stakeholders across Australian states and territories was undertaken to examine the impacts to businesses and inform the industry survey and modelling. Industry engagement focused on:

- The role of the ABCC and its main functions as a workplace relations regulator in the building and construction industry.
- How abolishing the ABCC could impact the industry, particularly in terms of construction costs, project delivery timeframes and risks.

Industry survey

A business survey was developed to gauge the experience of the building and construction industry with workplace relations matters and the ABCC, the impacts of workplace relations matters and the ABCC on businesses, workforces and project sites, and the expected impact if there was a change to the functions of the ABCC.

Economic modelling and analysis

EY's whole-of-economy computable general equilibrium (CGE) model, EY-GEM, was used to model the potential impacts of a change to the ABCC on the Australian economy. Several scenarios were developed to map this potential pathway. Each scenario is built on a range of evidence, including public datasets, evidence from the ABCC's activities and the results of the industry survey.

Further information on the modelling methodology is provided at Appendix A.

Exclusions

The study has focused on the impacts of changes to the functions of the ABCC including the potential to abolish the regulator. The following, while considered broadly in relation to key impacts, has not been included in our analysis:

- The rationale for establishing the ABCC or the merits of having a dedicated industry regulator have not been explicitly considered. As such, the analysis does not examine whether the building and construction industry requires a dedicated industry regulator and how it should function. Instead, the study focuses on how abolishing the ABCC could impact on the industry and the broader economy.
- The merits or justification behind unions in the building and construction industry, whether or not the building and construction industry benefits from unions or how they should function, has not been considered.
- Issues of corruption, criminal conduct, and lawlessness in the building and construction industry has not been examined beyond publicly available evidence on these matters.
- The industry survey undertaken to inform this report is not intended to provide a statistically robust assessment of stakeholders' views. However, the views expressed by stakeholders in the survey are broadly consistent with previous studies and surveys undertaken on this issue and provide a sound basis for this report in combination with other sources of information.

1.4 Structure of this report

The report is structured in the following chapters.

Chapter 2 provides a high-level overview of the market and industrial relations context of the study, including an industry profile of the Australian building and construction industry.

Chapter 3 presents the key findings from stakeholder engagement and the industry survey on the current market environment, business challenges, cost and delivery time pressures, and the impact of changes to the industry relations regulatory framework.

Chapter 4 explores the economic impacts arising from a change to the functions and roles of the ABCC in the Australian building and construction industry. The chapter examines how the economy could be affected by abolishing the ABCC over the next decade.

The report **appendices** provide the analytical methodology and detailed modelling outcomes, including a low-impact and high-impact scenario analysis, as well as our list of references.

The state of the industry

2. The state of the industry

The Australian construction industry is facing considerable pressure. As the economy recovers from the impacts of the COVID-19 pandemic, public and private demand for construction services is rapidly increasing. On the other hand, international supply chain blockages and shortages have increased input costs and pressed on slim profit margins. These forces are interacting with existing structural issues to create significant challenges for the industry. In a challenging business environment, the role of the ABCC as a mediator and regulator is increasingly important to keep costs down and drive productivity.

2.1 Industry overview

Demand for labour is predicted to be almost 50% higher than supply.

Major public infrastructure investment in Australia will grow by 100% and exceed $218b over the next five years.

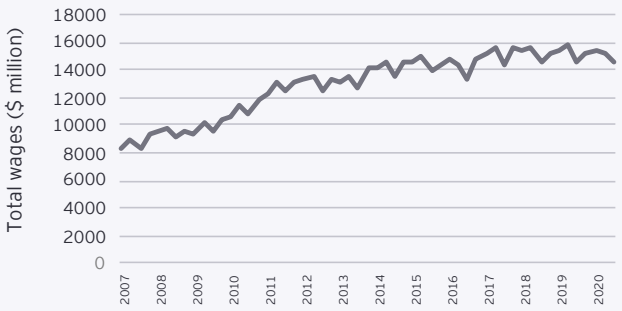
The number of women in construction roles increased by 34% since 2015.

Females make up only 12% of the public infrastructure workforce.

Construction remains the most male-dominated industry in Australia.

COVID-19 has significantly impacted the construction industry, causing a possible total reduction of 635,900 construction or related jobs.

Total wages in the construction industry have increased at 4.23% pa over the last 10 years.



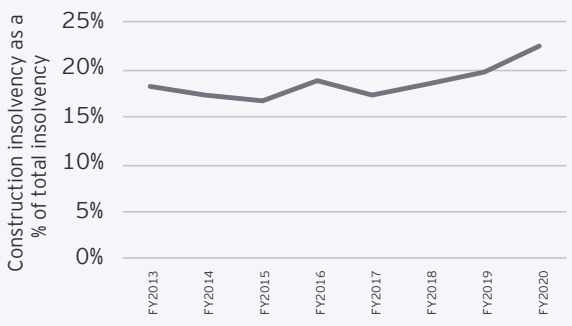
Growth of demand for materials, equipment and plant could increase by over 120% each, increasing input prices.

Prices for timber and steel have increased by 90%.

Outstanding construction sector debts to the ATO totaled almost $7.3 billion in the 2020-21 financial year, making up 21% of all collectible debt.

This rose a further 16.7% from as of December 2021.

Construction businesses represent a high proportion of total insolvencies. It was 22.5% of total insolvencies in FY2020.



The construction sector is the 9th most unionised industry. Trade unionisation in the construction sector is roughly 10%.

Unions include the CFMMEU, one of the largest unions in Australia with almost 150,000 members, and the CEPU, a trade union made up of almost 100,000 members.

2.2 Pressures on the Australian construction industry

The size and complexity of government-funded projects has generally increased over the last decade, reflecting greater brownfield construction elements and a portfolio of network and city shaping mega projects. Australia currently has over 3,200 construction projects identified, in progress and planned from 2006 to 2031, valued at around $926 billion.[14] Approximately 30% of this is publicly funded by states or the Commonwealth. Over the next five years, major public infrastructure investment across Australia will exceed $218 billion.[15] This is a growth of 100% on current activity levels.

The infrastructure needs of Australia's communities are continually evolving, which is changing the way projects and programs are managed and delivered. A growing and shifting population, changing climates and weather extremes, technology change and a changing structure of the economy are influencing the future of infrastructure.[16]

In addition to these changes, the industry is also facing a series of short- and medium-term challenges. Global supply chain blockages and shortages have increased prices for crucial construction materials such as steel, aluminium, and timber. The closure of Australia's international border, coupled with a heightened demand for construction services, has created widespread shortages in labour. The construction industry has historically been overrepresented in terms of the frequency and degree of industrial action. In this challenging business environment characterised by heightened demand, labour and supply shortage, inflation, financial instability, and a historically high rate of industrial activities, any changes to the business environment from abolishing the ABCC could further increase pressures on the industry.

Public infrastructure pipeline is growing and changing

- Government is delivering more major and mega projects that are more complex and higher risk, particularly as the instruments and vehicles for delivering infrastructure are providing greater flexibility (i.e., delivery via a government business enterprise, Public Private Partnership models). For example:
    - The Western Sydney International (Nancy-Bird Walton) Airport, currently valued at $5.3 billion, is being delivered by the Western Sydney Airport Company (WSA Co), a government business enterprise established specifically for the purpose of constructing and operating the airport.
    - The WestConnex underground motorway, currently valued at over $16 billion, is a jointly funded project by the NSW and Commonwealth governments and has been financed mostly by the private sector including foreign investment (e.g. the Korean Development Bank).
- Delivering value for money to the Australian public and being held accountable to communities is driving investment in infrastructure on the basis of delivering outcomes, including economic, social and environmental outcomes.
- A densifying and urbanising population, particularly in fast-growing cities, is presenting housing and affordability challenges as well as impacting supply chains and logistics. The Australian population is also ageing — this presents greater emphasis on welfare and aged care support. Much of the infrastructure pipeline is expected to be spent on the east coast, reflecting current and projected settlement patterns.[17]

[14] Macromonitor 2021
[15] Infrastructure Australia 2021c
[16] Infrastructure Australia 2020
[17] Infrastructure Australia 2021c

- There are growing expectations from the Australian public around quality of life, as Australia continues to advance and develop. This has driven a growing emphasis on rural and remote areas, delivering community and place benefits through infrastructure, and balancing the density and liveability of cities.

- The extremes of the Australian environment, increasing pressure from human activity and the impacts of natural disaster events. This is changing the planning, design and build of projects to consider long-term resilience of infrastructure, not just short-term realisation of benefits.

Increases in input costs and mounting debts could squeeze the industry

The capacity of the industry is being stretched by rising demand, and growth in the complexity and scale of infrastructure. Infrastructure projects can be increasingly prone to delay, or shelving, due to issues with supply chains, resourcing, and funding scarcity.

- Growth in demand for materials, equipment, and plant could increase by over 120% each, pushing up prices for these materials and squeezing profits across the industry.[18] In such a tight construction market, this is likely to squeeze the profits of firms and create delays in construction projects.

    - Contractors are reporting significant drops in profitability, decreasing from its historical 4 to 5% to a low as -7.5% while winning new work. This has been attributed to acute price increases in timber and steel, with prices increasing 80 to 90% from tender submission to contract award.[19]

- The construction industry is vulnerable to insolvencies due to cash flow issues, narrow profit margins, and the proliferation of fixed price contracts. After excluding miscellaneous businesses, the construction industry has led the nation every financial year in insolvencies, on average accounting for nearly 20% of all insolvencies.[20] This is particularly challenging for the construction industry as 99% of businesses are small or medium sized, but even large businesses are at risk.

- Unpaid tax bills and outstanding debt built up by the construction industry during the pandemic is creating an environment of risk for construction projects. Outstanding debts to the ATO make up 21% of all collectible debt and total more than $7 billion.

- Industry has concerns that, with projections of 33% average annual growth, it cannot continue to deliver projects on time and on budget. Delays in the construction industry can cause a reduction in investor confidence, increased costs, and risk of project abandonment.

Trends in the labour force and supply shortages

The labour force is facing changes and growing challenges as the infrastructure pipeline grows.

- Gaps in skills and a shifting labour force is seen to be creating a shortage of construction workers. Infrastructure Australia has found that over half of the occupations that are relevant to public infrastructure are already likely in shortage, or potentially in shortage, and there could be a shortfall of around 93,000 workers by 2023.[21]

[18] Infrastructure Australia 2021b
[19] Infrastructure Australia 2021b
[20] ASIC 2022
[21] Infrastructure Australia, 2021a

    - This shortage is considered to be affecting the entire construction supply chain, with resource providers such as quarries and sawmills reporting that a reduced workforce will limit their output.

- While the proportion of women in the construction industry has increased over the past 7 years, construction remains the most male-dominated industry in Australia. Increasing gender diversity can bring the benefits of higher profits and a more inclusive workplace culture.

- The construction industry is an important employer for Australia, employing roughly 1.15 million people, with projections for employment to reach 1.26 million in 2025.[22] The industry plays a vital role in upskilling new workers and employing more apprentices than any other industry, however the number of people completing these apprenticeships is dropping.[23]

- The construction industry, in percentage terms, is not highly unionised, with roughly 10% of construction workers being union members[24]. However, due to the size of the construction industry's workforce, it is home to one of the largest unions in Australia, the CFMEU with almost 150,000 members, as well as the CEPU, a trade union made up of almost 100,000 members. Non-residential construction has historically been more unionised than residential and civil construction.[25]

- The construction industry has historically had a high number of days lost due to industrial disputes, and this trend has continued right up until the COVID-19 pandemic. Between 2013 and 2020, the construction industry was responsible for 30% of all working days lost.[26] The figure was 35% during 2013 and December 2016 when Fair Work Building and Construction was in place, and 27% after the ABCC was instated in December 2016.

- Other industries can also experience spikes in working days lost due to strikes and industrial action surrounding pay or safety concerns. Between March 2016 and March 2017, the coal industry saw 1,361 days lost per 1,000 employees, compared to the construction industry's 12-month peak of 96 days lost per 1,000 employees between September 2011 and September 2012.[27] As noted by the Productivity Commission, the ABS's working days lost per employee figure certainly underestimates the true number of workings days lost in the construction industry. The ABS only counts an industrial action in this statistic if it exceeds ten working days. Additionally, due to the large size of the construction workforce, when this figure is aggregated to a per employee number, it appears less significant.

- There is concern over the ability for construction companies to absorb the costs of industrial disputes. As construction projects are often delivered on a fixed price contract, any project delays can impact on the total cost of delivering the project. When a construction site is shut down for a day, sometimes at short notice, construction companies can experience costs related to subcontractors, equipment hire, and materials. In an inflationary economic environment where profit margins are slim, construction companies are increasingly at risk to the costs of industrial disputes.

[22] AISC 2022
[23] Master Builders Australia 2020b
[24] ABS 2020
[25] Productivity Commission 2014
[26] ABS 2021
[27] ABS 2021

Table 2: Peaks in working days lost in various industries[28]

Industry	12-month peak period	Working days lost per 1,000 employees during peak
Coal mining	March 2016-17	1,361
Metal manufacturing	March 2018-19	116
Construction	September 2011-12	96
Other manufacturing	September 2011-12	85
Education	September 2011-12	84
Transport and warehousing	September 2020-21	79
All industries	September 2011-12	40

Case study: Probuild collapses into administration, February 2022

Parent company WBHO Australia Group went into administration in February 2022, putting Probuild and over 17 related companies into collapse. Probuild was one of Australia's largest construction companies, generating $1.4 billion in annual revenue and managing major public and private construction projects.

The issues that Probuild faced are seen throughout the construction industry, including long building delays, difficulties paying workers, and squeezed profits. The collapse of Probuild is a cautionary tale of the consequences of large construction companies collapsing.

When large construction companies fall, the impacts are felt throughout the economy and across a range of stakeholders such as workers and clients, both private and public. Probuild's collapse puts over $5 billion worth of construction projects in jeopardy and leaves workers $14 million out of pocket. Their insolvency also significantly reduces Australia's construction capacity, as it is one of only a few contractors that can handle large scale projects.

Key facts:

- Over 800 workers and thousands of subcontractors are owed $14 million
- Probuild parent company WBHO Australia went into administration putting 17 related companies at risk
- Probuild's collapse leaves 18 major commercial and public sector projects across 4 states in limbo, including a projected loss of $161 million on a major road upgrade in western Melbourne
- $138 million had been pumped into the company over 4 years from South African owner to keep the company afloat.

Flow-on impacts for the wider economy

The challenges that impact the construction industry are not isolated, as the delivery of infrastructure affects the way Australians live and work every day. Construction services are important inputs into all factors of the economy, from the commute to work, the inner-city skyscrapers housing private and government workers, or the processed food factory in regional Australia.

[28] ABS 2021

- Construction is a driving powerhouse for the Australian economy. On average every dollar spent on public infrastructure creates four dollars in output. Further, over 20% of Australia's GDP can be attributed to the infrastructure industry.[29]

- Other sectors rely heavily on the construction industry. For example, demand for professional services created by the construction industry accounted for over 10% of the sector's domestic output.[30]

The shutdown of the industry has had long-lasting effects on the performance of the construction industry, and is responsible for the supply chain shortages, increasing input costs, and labour shortages that the industry is facing. In a challenging business environment characterised by labour and supply shortages, inflation, and a high degree of industrial action, any changes to the current industrial relations ecosystem by abolishing the ABCC could add further pressure to construction companies.

Key points

- The growth of the construction industry is outpacing available labour supply particularly across skilled occupations. The labour market is experiencing constraints in capacity and capability, with demand almost 40% higher than supply.

- Heightened market activity, economic stimulus programs and prices are contributing to upward pressure on prices and driving increases in the cost of materials. Upstream industries including steel and timber suppliers are experiencing similar labour and price pressures, increasing input costs.

- The financial stability of the industry is under pressure. Falling levels of profitability are being driven by increasing project timelines, risk allocation, cost of inputs and capability constraints. Historically high rates of construction business insolvency are being further pushed upwards.

- There is a substantial long-term, economy-wide impact to consider, given the value of infrastructure that is funded with public money. Australian public infrastructure spending is an important economic driver, with every dollar spent on public sector infrastructure creating around four dollars of economic output.

- When large construction companies like Probuild collapse, it leaves workers, subcontractors, clients, and projects in limbo. These costs are felt throughout the economy and can reduce Australia's capacity to deliver large-scale infrastructure and building projects.

[29] Infrastructure Australia 2021c

[30] Master Builders Australia 2020b

Engagement with industry: Understanding the impact of industrial action and the ABCC

3. Understanding the impact of industrial action and the ABCC

Comprehensive research, stakeholder engagement, and an industry survey were undertaken to gain industry-level perspectives on industrial relations and the ABCC, as well as expectations of the impact of a change to the ABCC's core functions on business areas. We found that, across multiple studies, the industry had a positive view on the role and performance of the ABCC. Common themes across various modern inquiries and reports show endemic issues with unlawful industrial activities, and the ongoing need for an independent, industry-specific regulator.

Much of the industrial relations background is detailed in Section 1, but one noteworthy addition is the Productivity Commission's 2014 inquiry into public infrastructure. This inquiry emphasised the importance of improving productivity in the construction industry to keep the cost of public infrastructure down. The inquiry found that the building and construction industry was characterised by unlawful industrial actions and delaying tactics outside of highly visible strikes and formal stoppages, such as:

- Blocking access to worksites through dumping debris or materials, or parking machinery in front of access points
- Stopping the removal of waste from worksites
- Placing bans on the use of critical equipment such as cranes.

While some delays were relatively short, it was noted that others could last days, and this uncertainty creates pressure on construction businesses to negotiate. The estimated costs of these delays and other forms of industrial action have varied considerably, with MBA suggesting it could be as high as $100,000 each day for large projects.[31] The Productivity Commission estimated that industrial disputes in 2012-13 reduced productivity, measured by time worked per employee, by roughly 0.032%, with an economic cost of around $40 million in GDP.[32]

This modelling relied on ABS data for workings days lost per employee, which is widely considered to underestimate the true number of disputes. The ABS counts a work stoppage if it is equivalent to ten workings days lost. This could be ten employees stopping working for one day, or 40 employees stopping working for two hours each. Importantly, this definition ignores work stoppages such as blocking access to worksites, which could be led by a few employees for a short period of time. It also ignores the costs of threats to stop work, which can cause for construction businesses to adjust or cancel time-sensitive or costly tasks such as bringing in specialised equipment and workers. The Productivity Commission acknowledged that its analysis almost certainly underestimated the true cost of industrial action.

Recognising these limitations, estimates of the cost of industrial action also vary due to the relative size, complexity, and phase of any given construction site. For example, a stoppage over several days can be less disruptive at the very beginning of a project compared to a similar stoppage that coincides with a time-sensitive and costly phase of the project, such as those requiring specialised equipment, subcontractors, or materials.

The size of the construction industry also makes it difficult to observe statistical variations in indicators such as productivity, industrial action, and cost increases. Work stoppages are concentrated to larger worksites, typically in the non-residential construction industry which has higher rates of unionisation than the residential construction and civil construction industries.[33]

[31] Master Builders Australia 2014a

[32] Productivity Commission 2014

[33] Productivity Commission 2014

Additionally, the ABS's statistic excludes industrial actions such as work bans, overtime bans, and coercion, which the literature and Royal Commissions on the industry suggest is more common than the highly visible strikes and work stoppages that the ABS captures in its data.

While the Productivity Commission acknowledges that major construction sites likely face a greater cost from industrial action, these costs can be somewhat diluted when aggregated across the whole construction industry.[34] Overall, the Productivity Commission concluded that "there is no doubt that local productivity has been adversely affected by union (and associated employer) conduct on some building sites, and that the BIT/ABCC is likely to have improved outcomes",[35] but this improvement is difficult to prove quantitatively due to a lack of data, statistical noise, and the complexity of any given worksite.

The Productivity Commission further highlights that the cost of industrial action is distributed across both workers and businesses. During industrial disputes and work stoppages, workers cannot be paid, and thus incur a cost to undertake industrial disputes. While this may be worthwhile for some employees, industrial disputes can stop work for employees who may wish to continue to work, such as subcontractors. Such stoppages can have knock-on effects for subcontractors who may have other jobs scheduled that then need to be rescheduled. Moreover, once work restarts, workers will often be required to work overtime to catch up on lost working days. This creates additional risks as shift patterns must be changed, workers come under stress which can translate into absenteeism, and construction methods may need to be changed.

3.1 Past surveys

Throughout the last two decades, industry surveys (similar to the one developed for this study) have provided quantitative data to validate anecdotal evidence. One survey commissioned by the Australian Constructors Association in 2007 sought to understand the extent to which there was a change in the building and construction industry's culture since the passing of the BCII Act and the inception of the ABCC. This survey, undertaken by Jackson Wells Morris, interviewed 42 people across four states, covering a range of roles such as project managers, foremen, and sub-contractors. This survey highlighted some key industry benefits provided by the ABCC, as detailed below[36]:

- 76% stated that it was easier to operate in the construction industry since the ABCC was established
- 73% stated that the industry was more harmonious
- 75% stated that employees viewed the changes made in the industry positively
- 95% stated that they had noticed a change in union behaviour
- 71% stated that safety had improved
- Almost all respondents stated that there were fewer disputes related to safety
- 26 respondents stated that they had personal experience with the ABCC, and of this, 65% reported that it was a positive experience
- When asked if the ABCC was a good thing or not, close to 100% of respondents stated that the ABCC was a good thing

[34] Productivity Commission 2014

[35] Productivity Commission 2014

[36] Australian Federal Government 2009

Overwhelmingly, survey participants responded positively to questions around how the industry had changed in the four years prior to 2007. The survey results demonstrate that the industry was safer, more productive, and that employees were mostly happy with the changes seen in the industry over this period.

As highlighted by the Productivity Commission, industrial action places costs on businesses, in the form of project delays, wages, and loss of productivity, as well as workers through increased stress, overtime, and loss of wages. The impact on workers is underscored by the survey, with 75% of respondents suggesting that employees supported changes made in the industry, as the reduced level of industrial action took pressure and stress off workers and managers.

Another survey completed in 2008 and undertaken by MBA covered a larger sample size of over 1000 managers, supervisors, and unionised/non-unionised site workers came to similar conclusions.[37] This survey found that:

- Roughly 40% of respondents believed that the existence of the ABCC had improved their job satisfaction, while roughly 50% believed there was no change.

- 40% of site workers stated that the ABCC had improved their relationships with managers and supervisors, while only 25% of managers and supervisors stated that their relationship had improved with site workers. This surprisingly high rate of improvement from site workers corroborates anecdotal evidence that the ABCC often acted as a swift and impartial mediator to disputes between workers and management.[38] On average, roughly 3.5% of workers surveyed felt their relationships had gotten worse.

- More than 40% of workers surveyed stated that the ABCC had improved productivity, with a similar amount stating that it had no real change.

- Interestingly, despite a mostly even split between respondents who viewed the effects of the ABCC as positive and those that viewed it as immaterial, 85% stated that they believed the building and construction industry needed an industry regulator.

These survey responses demonstrate that there is a significant part of the construction industry which believes that the ABCC has improved productivity and industry harmony, with the vast majority of those surveyed believing that the industry should have its own dedicated regulator. While there were large portions of the sample that answered in the neutral, this could be explained by more than 40% of respondents being unfamiliar with the work of the ABCC.[39]

3.2 Stakeholder consultation

To complement a review of the literature, case studies, surveys, and economic modelling, we also directly engaged and consulted with members of the industry to understand the historical and current IR environment and the ways in which the ABCC is involved. Consultations informed development the industry survey.

Key findings from our consultations include the following:

- The building and construction industry is undergoing a period of intense demand, coupled with the impacts of the pandemic on supply chains and site logistics under periods of restrictions and lockdowns.

[37] Australian Federal Government 2009

[38] Australian Federal Government 2009

[39] Australian Federal Government 2009

- There is a varied experience across states and territories in terms of industrial relations issues. Stakeholders noted that this tended to influence the cost of delivering projects, the functioning of construction sites, as well as workplace culture and morale.

- The ABCC was considered to deliver value in the industry by upholding the BCIIP Act as well as its advisory and educational function, and by discouraging unlawful behaviour in the industry and on construction sites.

- It was acknowledged that the ABCC imposed some costs to businesses in terms of compliance and audit functions. However, overall, the benefits of the ABCC as an industry regulator were considered to outweigh the costs.

- In potential future market environment where the functions of the ABCC were reduced or the regulator was abolished, stakeholders expect that the costs of delivering projects, as well as the costs in running construction businesses, would increase.

- This was a particular concern to stakeholders given the currently heated nature of the industry and acute pressures with rising material costs, labour shortages, and supply chain issues.

3.3 Survey methodology

Following stakeholder engagement, a survey was developed and issued to members of the building and construction industry, incorporating learnings from stakeholder engagement and background research.

Survey participants included personnel that are involved in managing business operations, interactions between the business and the ABCC, and managers of workplace relations. This was considered appropriate for gauging how businesses might be impacted if the functions of the ABCC and the Code were to change.

The study involved 49 surveys across all states and territories and was completed between November 2021 and March 2022. Respondent details remain anonymous and confidential.

Survey questions encompassed:

- Profiling the respondent including the location of business operations and profile of the business.

- The experience of the respondent with IR over the last four years, including types of IR and frequency and the impact of IR on the business, workforce and on site.

- The role of the ABCC in terms of IR, how different functions of the ABCC impact the business and workforce, how different requirements of the Code impact the business and workforce, and the opinion of the respondent on the role of the ABCC in the industry.

- The respondent's perception of culture in the building construction industry and the extent to which the ABCC has a role in influencing industry culture.

Limitations

The following limitation with the survey should be noted:

- The survey is limited to questions related to the experience of the respondent with industrial relations activity and the ABCC.

- Profile of participants indicate that respondents are likely in business management and operations roles or workplace and industrial relations management roles. Employees of construction companies were not covered by this survey.

- While results indicate the impact of a change to the ABCC's functions on businesses and workplace relations, results do not necessarily represent the views and opinions of the entire building and construction industry.

3.4 Survey findings

Our survey of the building and construction industry sought to capture industry insights into the effects of industrial action on businesses and workplaces, as well as what industry viewed would be the effect of abolishing the ABCC on their business. The survey was segmented into four parts:

- Part A: Profiling the respondent including the location of business operations and profile of the business.

- Part B: Understanding the culture of the building and construction industry, and whether businesses viewed the ABCC has having an important role in the industry.

- Part C: Understanding businesses' experiences with industrial relations matters and how these actions have affected their business and workplace.

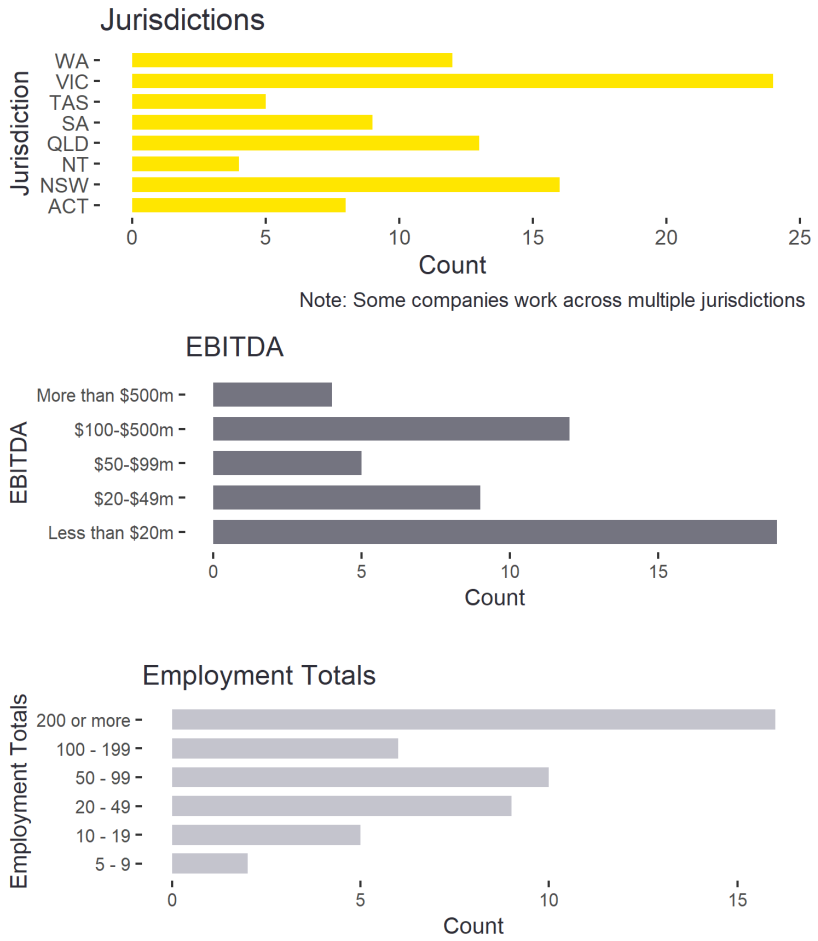
- Part D: Capturing industry insights into the role and powers of the ABCC, particularly what impact the ABCC has had on business and what challenges could the industry face if the ABCC was abolished.

Part A: Business profiling

The survey received 49 responses from businesses throughout Australia. Victoria was the most represented, with New South Wales, Western Australia and Queensland also being well-represented. Smaller jurisdictions like Tasmania and the ACT but made up a smaller proportion of the responses.

In terms of financial performance, most businesses surveyed had EBITDA less than $20 million. Respondents included businesses of many different sizes, as measured by employees, with large businesses being the most represented in the sample. From this business profiling, EY found that construction businesses that completed the survey were most likely to operate on the east coast. EY also found that most businesses employed a large workforce but earned a small amount of profit.

Figure 1: Business profiles



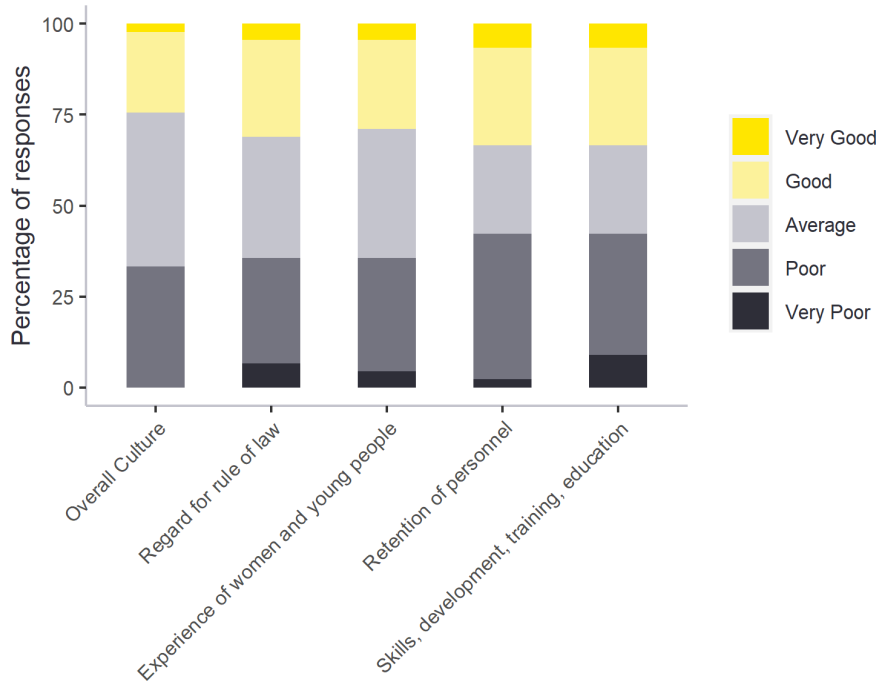
Part B: The ABCC and the culture of the industry

In Part B, the survey asked respondents how they viewed the culture of the industry overall, as well as well as other areas such as regard for rule of law, retention of personnel, and the experience of women. Furthermore, respondents were asked for their views of the ABCC's impact on the industry in areas of industrial action, safety, and industry culture. that the survey showed that:

- The majority (42%) of respondents rated the culture of the building and construction industry as average, with one-third of respondents rating the culture as poor
- There was an even split between respondents rating the regard for rule of law as good versus poor
- 40% of respondents rated the retention of personnel as poor.

These figures shed light on the perception of the building and construction industry from within. The industry's culture has long been characterised by high rates of industrial action and disputes, a highly price competitive market, and high-risk work. Thus, it is not surprising to see that one-third of respondents felt that the culture in the industry was poor.

Figure 2: Businesses' perceptions of the culture of the industry



Respondents were also asked for their opinions of the ABCC and the Code's role and impact on the industry. The survey found that:

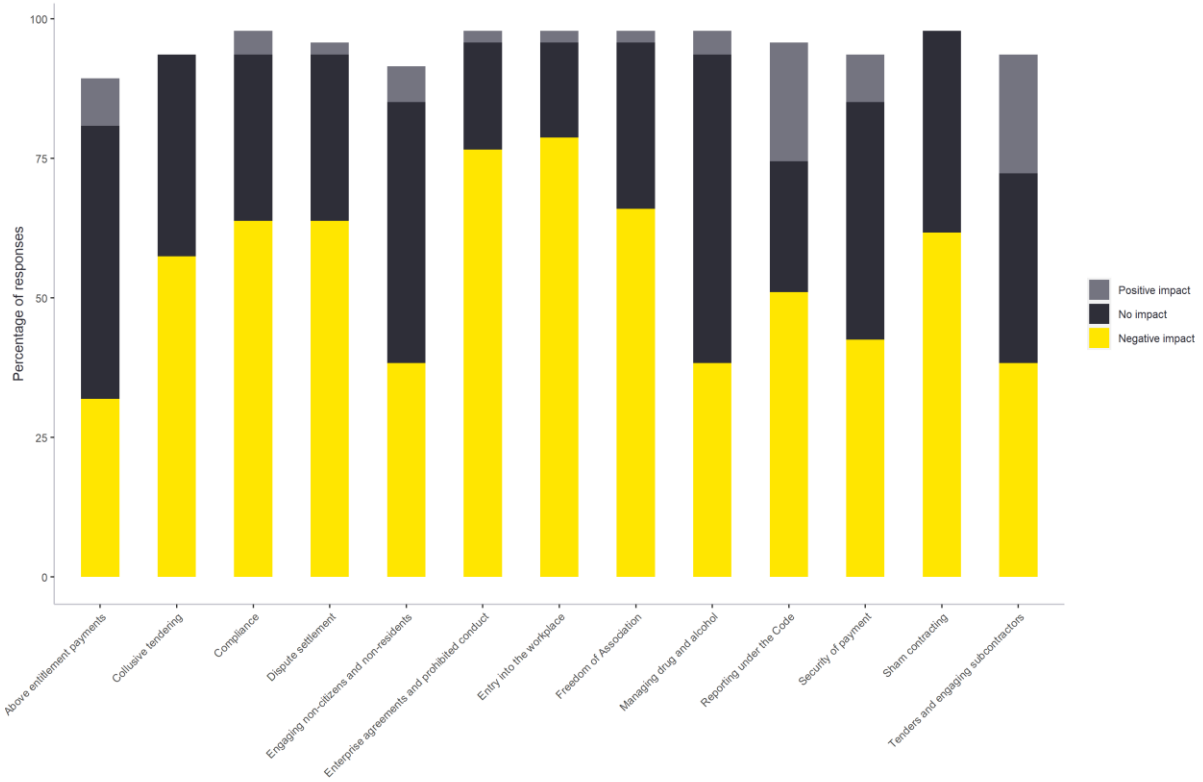
- 89% of respondents believed that the industry benefits from an independent regulator
- 80% viewed the ABCC as a valuable industry body and that it performs an important function
- 64% of respondents stated that the ABCC would be a more effective regulator if it had greater powers, while less than 10% of respondents believed that the ABCC would be more effective if it had lesser powers
- Nearly 70% of respondents stated that the ABCC had reduced the amount of industrial action in the industry, while a similar portion believed that the ABCC had made industrial action easier to manage
- 36% claimed that the ABCC had improved safety at worksites, while 42% were unsure of the regulator's impact
- 62% of respondents stated that the ABCC had positively impacted the industry's culture, while one-quarter believed that it had not had an impact.

These results demonstrate that the industry views the ABCC as a valuable and necessary regulator which has reduced the amount of industrial action in the industry, made industrial actions easier to manage, and improved the overall culture of the industry.

To expand on their views relating to the ABCC, businesses were also asked about the possible consequences of removing or watering down certain parts of the ABCC's mandate to monitor the construction industry and enforce the Code. This includes oversight over 16 different practices such as preventing collusive tendering, unlawful right of entry, unsafe workplace practices, sham contracting, managing drug and alcohol usage, dispute settlement, and others. This does not include other roles of the ABCC as an educator, advisor, and mediator. Survey results detailing

businesses' perception of the consequences of watering down a selection of 13 Code-covered practices is provided below.

Figure 3: Businesses' perceptions of the consequences of watering down the ABCC's powers[40]



Respondents concluded that:

- None of the areas where industry problems exist were expected to improve if the ABCC's mandate were watered down, with most areas expected to suffer or remain the same
- Industrial action is expected to increase as freedom of association, right of entry, and dispute settlements could become more prevalent
- Abolishing the ABCC could expose construction businesses to more costly and non-productive enterprise agreements.

Part C: Perceived effect of industrial action on business areas

The survey asked respondents if they had experienced industrial action at their workplace in the last four years. Nearly 70% of businesses responded in the affirmative and were asked what kinds of industrial actions took place and how often they occurred, as well as an estimate of the positive or negative effect of the industrial action on their workplace. A series of business areas including finances, safety, and productivity were covered by the survey. The following table shows the frequency of various types of industrial action.

[40] Note that percentages do not add up to 100% as "not sure" answers are excluded

Table 3: The frequency of industrial activities at worksites

Industrial action	Never	Rarely	Sometimes - once or twice a project	Often - multiple times on a project	Very often - frequent occurrence on a project
Disputes about safety	5	11	7	8	3
Disputes during enterprise agreement negotiations	12	10	8	3	1
Disputes about employment entitlements	9	13	10	1	1
Right of entry for alleged award breach	10	11	8	4	1
Right of entry for discussions with members	2	9	12	7	2
Right of entry for claimed safety concerns	2	5	11	8	7
Disputes about freedom of association	14	9	8	1	2
Protected industrial action	21	11	2	0	0
Disputes about coverage of industrial agreements	15	8	8	2	0
Disputes about something unrelated to our business	11	14	5	2	2
Stoppage due to safety risk	18	12	3	1	0
Disputes about use or selection of sub-contractors	9	11	6	6	2

From these results, right of entry industrial actions were the most common forms of industrial action, as 7 businesses reported that right of entry for claimed safety concerns occurred frequently on projects, and 12 businesses reported that right of entry for discussion with members occurred once or twice a project. Other forms of industrial action such as disputes over freedom of association, right of entry for alleged breach of award, and disputes about employment entitlements were also reported to occur with some regularity. These figures are in line with anecdotal evidence from stakeholder consultations, findings of Royal Commissions, and the ABCC's own reporting on litigations which shows that right of entry disputes made up 30% of all litigations.[41] Our survey also found that right of entry made up 34% of all industrial action.[42]

Based on these industrial actions, businesses were asked to estimate the positive or negative effect of industrial action as a whole on their business. The survey did not seek to measure the impact of specific types of industrial action relative to other types. However, recognising that right of entry was the most common, these findings shed light on the impact of right of entry actions on business.

In terms of the financial implications of industrial actions, respondents unanimously asserted that industrial action increased wages, employment, construction, and project costs. Respondents also claimed that projects took longer to complete, and that contingency costs and labour costs increased.

These responses are to be expected, as industrial action such as strikes and right of entry can lead to work being halted, which would lead to increases in project costs across the board. Additionally, it highlights how costly industrial action can be on worksites, with cost increases felt across all

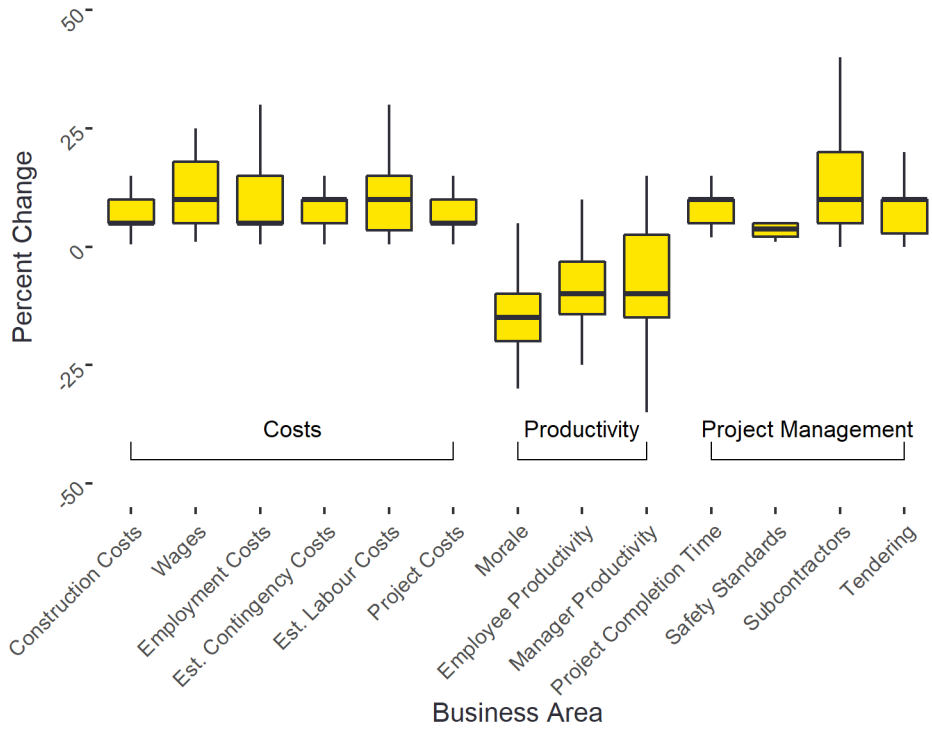
[41] ABCC 2022

[42] This is based on a score given to each answer ranging from "Never" to "Very often". A score of 0 was assigned to "Never", 1 to "Rarely", 2 to "Sometimes, 3 to "Often", and 4 to "Very often".

identified business areas. Increases to contingency costs are also concerning because the construction industry is highly price competitive.[43]

The survey asked for estimates of the effects on each business area, so it is difficult to gauge over what period the estimated impacts occur over. The effects could gradually occur over multiple years such as in the case of wage increases, or the effects could happen more suddenly such as in the case of project delays.

Figure 4: The estimated impact of industrial activities on costs, productivity, and project management



In terms of productivity, respondents answered that employee and manager productivity fell sharply after industrial action. Morale also fell sharply. The losses of productivity are likely to relate to the stoppage of work at sites during the industrial action. Losses to morale can occur firstly from the stress and disharmony caused by a dispute, and secondly from the overtime hours worked after the dispute has occurred to make up for working days lost.

Survey respondents also reported that industrial action led to some improvements in safety standards, although the sample size for that response is very small. Respondents also reported increases in the use of subcontractors and increases in tendering. Overall, respondents reported that industrial action resulted in:

- Cost increases of 9.9% on average
- Productivity decreases of 10% on average
- Increases to project completion time, safety standards, subcontracting and tendering of 10.1% on average.

[43] Australian Federal Government 2009

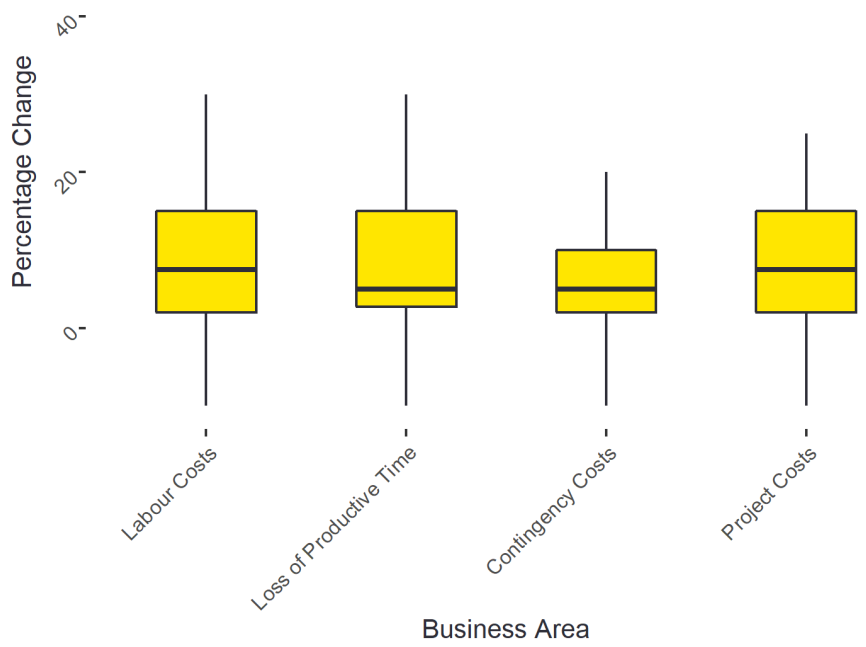
Part D: Estimated effect of abolishing the ABCC on business areas

In Part D of the survey, respondents were asked what impact they expected to face if the ABCC was not performing its core functions as highlighted in Figure 3. Most respondents reported that if the ABCC was not performing its core functions, there would be increases in costs and loss of productive time. Similar to the overall cost impacts (Part C), it is unclear when these expected effects would occur, whether that would be gradually over time, or immediately upon the ABCC not performing its core functions.

The survey found that abolishing the ABCC could have the following effects on construction businesses:

- An increase in labour costs of 8.8%
- A decrease in productivity of 9.3%
- An increase in contingency costs by 8.2%
- An increase in overall project costs by 9.1%

Figure 5: The estimated impact of abolishing the ABCC on business areas



While these figures are, at first glance, quite high compared to current economy-wide measures of labour costs and productivity, it is important to note that these impacts are likely to occur predominately in the portion of the construction industry directly overseen by the ABCC. This comprises around 20% of the industry.

As the Productivity Commission highlighted, the costs of industrial action and the impacts of the ABCC occur at a project-level, particularly large projects, which, when aggregated to the broader construction industry, can appear somewhat insignificant. As it demonstrated, even a hypothetical 5% improvement in productivity in the non-residential construction industry would not be considered significant at the macro scale.[44] Furthermore, these changes in labour costs and

[44] Productivity Commission 2014

productivity are expected to be seen in a portion of the construction industry rather than the whole non-residential construction industry as in the Productivity Commission's analysis. The estimated 9.3% decrease in productivity also accords with estimates made in 2013.[45]

The survey results suggest that abolishing the ABCC could amplify industry risks and adverse economic impacts. Further, the survey revealed that construction businesses are most likely to have an EBITDA of less than $20 million, highlighting a vulnerability to shocks that could potentially elevate the risks of business insolvency which is a major issue in the industry. External pressures on the construction industry including rising resource costs and a skills shortage could well be exacerbated by abolishing the ABCC, leading to a potential increase in labour costs and decreases in productivity.

[45] Master Builders Australia 2014b

The economic impact of abolishing the ABCC

4. The economic impact of abolishing the ABCC

EY conducted whole-of-economy modelling to examine the potential economic impacts of abolishing the ABCC. Based on the nature and size of potential impacts to the construction industry informed by an industry survey and direct consultation, the modelling assessed how abolishing the ABCC could have broader economic implications, reflecting the industry's key linkages to other parts of the economy.

Based on the survey data and review of the ABCC's functions in the construction industry, abolition of the ABCC could:

- Increase labour costs by 8.8%
- Reduce worker productivity by 9.3%.

These impacts, if realised, would have negative flow-on effects for the wider Australian economy, potentially reducing output and employment over the next 10 years. With the construction industry already facing challenges from extreme weather events, global supply chain shortages and access to skilled labour, any additional increases in business costs and reduced productivity due to more industrial actions would elevate industry risks and impose an economic cost to the country.

The modelling was conducted to 2030 and thus showcases the short and medium-term consequences if the ABCC was abolished. Impacts are applied as if the ABCC was abolished in 2022 and negative impacts occur immediately. This is considered plausible as industrial action can occur swiftly and with little warning. While wage increases could occur over the medium-term, labour cost increases from project delays and overtime work could occur immediately.

Around 20% of the construction industry's future pipeline is covered by the ABCC's mandate. Direct impacts to the Code-covered part of the industry (as noted above) were translated into an industry-wide impact of approximately:

- An increase in labour costs of 1.78%
- A decrease in labour productivity of 1.86%.

It should be noted that the percentage of the construction sector covered by the ABCC's mandate (20% of the industry) represents a conservative estimate, and we have undertaken sensitivity analysis of this proportion. This sensitivity analysis applied a Code-covered estimate of 15% and 35%. The mid-range impacts are presented in the body of this report, with the low and high scenarios presented in Appendix B.

4.1 Summary of results

Economy-wide modelling indicates there could be an overall economic cost over the next decade should the ABCC be abolished. The combined effect of rising wages and reduced productivity could shrink the construction industry and spill over into other construction-related industries. This results in reduced output in construction and related industries, an economy-wide reduction in GDP, a reduction in aggregate investment, and ongoing job losses.

Key economic costs indicated by the modelling involve:

- Output in the construction industry could fall by around $35.4 billion by 2030 as higher cost inflation makes fewer projects possible, and capital is reallocated to other economic activities.

- Overall economic activity could decline by $47.5 billion by 2030 as higher costs and lower productivity act as a handbrake on other sectors.

- Lower economic growth could see the loss of around 4000 full time jobs across the economy.

These potential impacts are summarised in Table 4.

Table 4: The potential short- and long-term impacts of abolishing the ABCC

Indicator	2025	2030
GDP ($)	-16.3 billion	-47.5 billion
Construction output ($)	-18.4 billion	-35.4 billion
Manufacturing output ($)	-4.8 billion	-13.1 billion
Services output ($)	-5.9 billion	-19.5 billion
Investment ($)	-24.7 billion	-45.6 billion
Employment (Full-time equivalent jobs)	-3,839	-3,950

4.2 Construction and related industry outputs

The construction industry is a key part of the Australian economy with linkages to many other industries. Our analysis has demonstrated the negative flow-on effects that could occur in the manufacturing, education, health, financial services, public administration, and defence industries if the ABCC was abolished.

The manufacturing industry is a major user of construction services for capital and infrastructure. Manufacturing facilities such as metal refineries, biomedical labs, and processed foods factories are complex, highly advanced, and large sites. The upfront capital cost of these facilities is substantial, and any cost increases in the construction industry could reduce the viability of potential investments.

Furthermore, the services industry, which is made up predominately of financial services, public administration, healthcare, education, and defence, could also face economic losses if costs in the construction industry increased. Financial services and public administration require extensive floorspaces to house their staff, leaving them vulnerable to construction cost increases. Healthcare is dependent on large-scale and technologically advanced hospitals, medical clinics, and aged care facilities. Education and defence also have large infrastructure requirements across multiple sites. These essential parts of the economy would be particularly vulnerable to flow-on effects from abolishing the ABCC and cost increases in the construction industry.

If the ABCC was abolished and the construction industry faced systemic cost increases, as suggested by survey data, industry consultations and historical experience, then the cost of producing manufactured goods or the services listed above could potentially increase. In the case for publicly funded goods and services such as public administration, healthcare, education, and defence, this would raise costs to taxpayers.

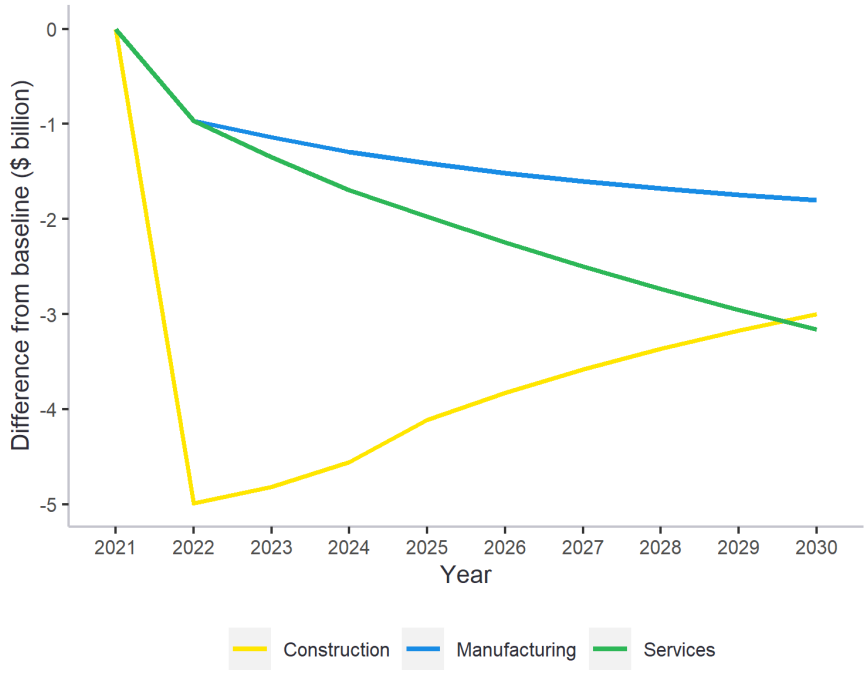
The construction industry is likely to be immediately affected by a reduction in productivity and increase in labour costs in the industry. This could occur as, if the ABCC was abolished, the industry would lose its regulator for unlawful industrial action, leading to potential increases in industrial action that can reduce productivity, increase costs, delay projects, and hurt employee morale.

These direct impacts cause a reduction in construction industry output as projects become more expensive and riskier, creating a fall in demand for construction services which could cost the industry $5 billion in economic output immediately, and $35.4 billion cumulatively by 2030. The immediate reduction in construction industry activity is likely to be sharp. However, over time, the industry may recover slowly due to increased public investment into non-residential construction services. While public construction spending is less price-sensitive than private construction spending, these publicly funded projects could face higher costs and risks if the ABCC was abolished.

Cost increases in the construction industry could flow into downstream sectors such as manufacturing and services. Manufacturing sector output could fall by $13.1 billion by 2030 as the cost of complex and advanced manufacturing facilities such as biomedical labs and processed food factories increases, disincentivising firms from upgrading or upsizing facilities.

Similarly for the services industry, the cost of floorspace, schools, hospitals, and defence bases could increase if the ABCC was abolished, making governments and private firms reassess upgrading or improving their existing infrastructure. While the construction industry recovers slowly due to the size of the infrastructure pipeline, the manufacturing and services industry continue to trend downwards as they continue facing higher costs for construction services, hampering production in these industries.

Figure 6: The projected economic loss across sectors from abolishing the ABCC



The services industry is an aggregation of the following industries:

- Financial services
- Public administration and defence
- Education
- Health and social work
- Real estate
- Other business services

4.3 GDP and investment

The construction industry is a key enabler of output and investment in Australia, with every dollar spent on public infrastructure generating four dollars in output, according to Infrastructure Australia assessments.[46] Construction spending is also a key form of investment used by governments and private companies to improve the infrastructure, capabilities, and productive capacity of the economy. By abolishing the ABCC, the cost of this infrastructure could increase, which would reduce the efficiency and value of infrastructure investments and lead to negative flow-on effects to the broader economy.

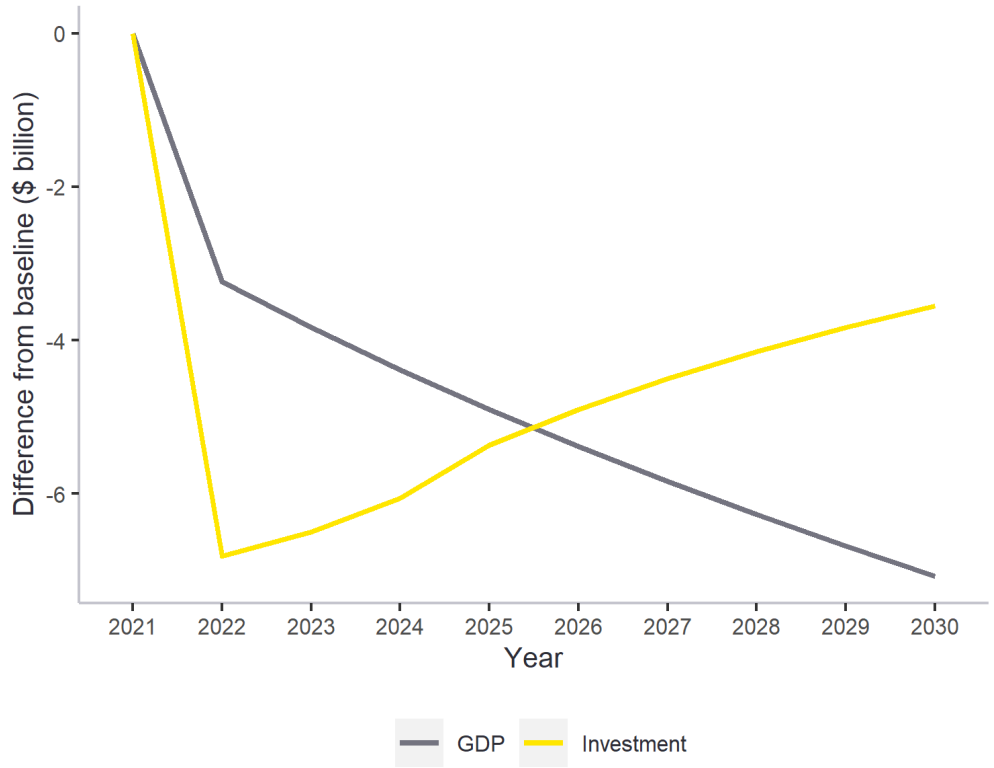
If the ABCC was abolished, this could lead to a total economic loss of around $47.5 billion, compared to baseline estimates, to 2030. The figure below demonstrates how economic losses could materialise quickly and accumulate over the decade. As indicated by modelling, GDP could be sharply impacted by an immediate reduction in construction industry output, stemming from higher wages and reduced productivity in the industry, with losses accumulating over the next 10 years. As the construction industry accounts for approximately 7.5% of total economic output, the reduction in construction industry output directly and strongly contributes to this reduction in GDP. Furthermore, the increase in the cost of construction services has a flow-on effect to other industries, particularly the manufacturing and services industries. The loss in GDP is expected to

[46] Infrastructure Australia 2021c

increase each year as investments into capital-building infrastructure would be less economical, leading to a long-run reduction in GDP.

Investment is closely linked to the construction industry as both a factor input to construction, and because construction is a form of investment. Investment in the construction industry becomes more costly and risky, and infrastructure investments becomes less economical for both private and public organisations. Looking forward, investment could fall by $45.6 billion from the baseline, with some recovery of losses due to strong demand for construction industry outputs. Investment is expected to recover slowly as a large amount of infrastructure spending is already committed.

Figure 7: The projected economic loss from abolishing the ABCC



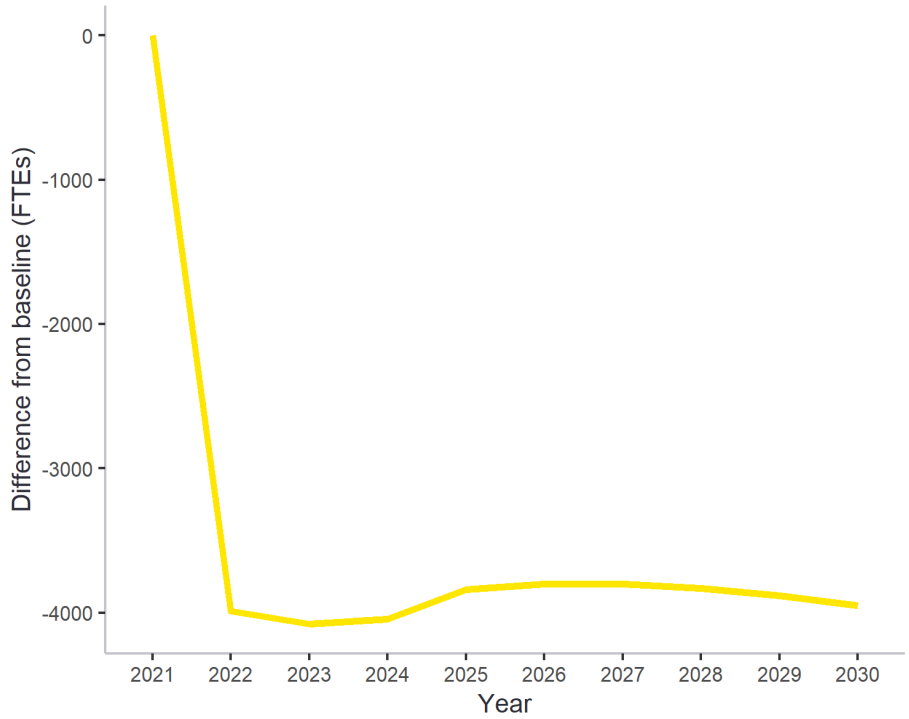
4.4 Employment and labour cost impacts

The construction industry is one of the largest employers in Australia, employing almost 1.15 million people. The industry also directly supports jobs in other Australian industries such as timber, steel, and cement manufacturing. If the ABCC was abolished, this could reduce demand for construction services and act as a handbrake on the industry, requiring firms to downsize their staff and creating negative flow-on effects to these other construction-adjacent industries.

Modelling suggests that abolishing the ABCC could cost the Australian economy up to 4,000 jobs. Job losses are felt immediately as output in the construction industry falls and labour costs rise. Despite a strong infrastructure pipeline over the medium term, job losses could be expected as higher costs cause some construction firms to downsize their management and tradespeople, with some flow-on effects to subcontractors. Job losses are a direct consequence of the potential increase in labour costs and decrease in labour productivity.

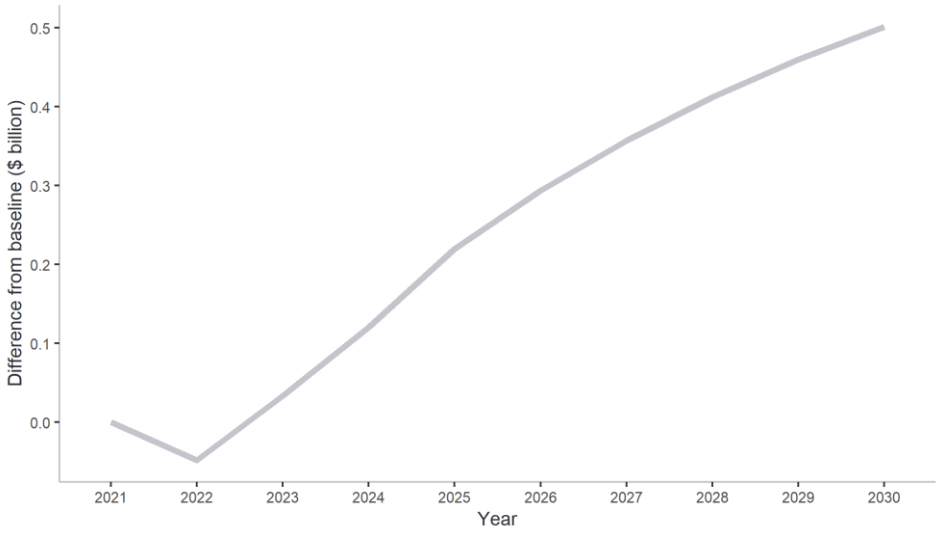
There may also be job losses felt in key input industries to construction such as Australia's domestic timber, steel, and cement manufacturing industries, as well as in output industries such as the manufacturing and services industries, as construction cost increases push up costs in these industries. Job losses are likely to remain persistent over time as industry cost increases become more entrenched.

Figure 8: The projected employment impacts from abolishing the ABCC



Expenditure on labour initially falls in 2022 as jobs are lost in the industry, before increasing as construction companies must then meet the demands of the infrastructure pipeline from 2023 onwards. Expenditure on labour is projected to grow to $501 million a year in 2030 as labour costs increase and productivity falls, requiring construction businesses to spend more on labour to achieve the same amount of output and match further increases in demand. If the ABCC was abolished, it could cost construction companies $2.4 billion in total labour costs by 2030. This increase in labour costs could increase the cost of construction projects with negative flow-on effects to manufacturing and services.

Figure 9: The potential impact on expenditure on labour



4.5 Potential fiscal impacts

The Australian Government is a key buyer of construction services to build infrastructure across road, rail, sea, and air networks, as well as deliver important public services such as healthcare, education, and defence. If the ABCC was abolished, this could lead to an increase in the cost of construction services driven by an increase in labour costs and a decrease in labour productivity in the industry. This would increase costs to taxpayers.

Based on the industry survey, Code-covered projects could face overall cost increases of 9.1%. The ABCC reported that almost $105 billion in Code-covered projects was publicly funded from now until 2029.[47] The projects included in this estimate include hospitals, defence facilities, residential housing, and infrastructure projects. These projects could cost a total of almost $9.5 billion more if the ABCC was abolished.

The diagrams on the following pages provide a state-level snapshot of the potential fiscal cost of abolishing the ABCC. New South Wales and Victoria could be most affected with a potential direct increase in projects costs of $4.13 billion and $3.02 billion respectively. Projects impacted in these states include important road upgrades, health infrastructure and private sector projects. Smaller states such as the Northern Territory and South Australia are also significantly impacted by cost increases of construction project due to the key role of sectors such as defence and health in their economies which rely on infrastructure investment.

A wide range of infrastructure projects could be affected across all states. Key public and private sector projects could be impacted across energy, health, defence, public administration, private infrastructure, and road and rail infrastructure.

The Liverpool Hospital Redevelopment in NSW and the Canberra Hospital Extension in the ACT could face a combined cost increase of $112 million if the ABCC was abolished. Several key defence projects across most states could face cost increases. Smaller state economies such as South Australia and the Northern Territory which are more reliant on the defence economy could be most adversely affected. More than $1 billion in defence spending was identified as Code-covered which could face added costs of $94 million. These cost increases would come at the cost of taxpayers and users of this health infrastructure in Sydney and Canberra.

Road and rail infrastructure is a significant part of public infrastructure investment. These projects are funded jointly between the Commonwealth Government, state government, and private companies. Victoria's road infrastructure project, the North East Link which is valued at $15.9 billion, and could see Commonwealth and Victorian taxpayers facing $1.4 billion in added costs if the ABCC was abolished. In total, $22.8 billion in road and rail infrastructure was identified to be Code-covered, which could see cost increases totalling $2 billion. These cost increases could make projects like the North East Link less viable in the future, which could stymie much-needed public infrastructure and impact on quality of life.

Important energy projects such as the 1,000-kilometre CopperString transmission line extension which seeks to connect central and regional Queensland with the National Electricity Market, and SA's Cultana Solar Farm which is expected to produce enough energy to power nearly 100,000 homes could face cost increases of up to $273 million in total. The increase in construction costs that could occur if the ABCC was abolished would increase the upfront cost of these projects, potentially making energy more expensive for end-users.

The development of new multistorey offices set to house public servants could face cost increases of up to $24.7 million. This would affect the Department of Defence's office development in Canberra, as well as the Australian Taxation Office's expansion in Hobart. As these projects would

[47] ABCC 2021c

be less price-sensitive than private projects, these cost increases could be absorbed by the taxpayer.

Private infrastructure spending can range from office buildings to house financial and legal services, or the upgrading and upsizing of manufacturing and processing facilities. Two private infrastructure projects were identified as being Code-covered which could face a combined cost increase of $36.8 million if the ABCC was abolished. This would adversely affect Tasmanian Quality Meats' $9 million abattoir expansion, which could put more than 100 jobs at risk.[48] Additionally, Nectar Farms' $295 million capital injection to develop a state-of-the-art smart farming facility in regional Victoria could put more than 1000 jobs at risk in the region.[49]

In total, more than $30 billion in infrastructure projects were identified as Code-covered. This is just a fraction of the more than $100 billion worth of Code-covered projects the ABCC is currently overseeing. Increases in the cost of these project could come at the cost of taxpayers or private firms, which could see the cost of critical infrastructure such as energy, housing, health, education, and roads increase for end-users. The negative implications for private companies looking to upgrade or upsize facilities could act as a handbrake on these investments. Increased costs for high priority projects such as the North East Link in Victoria and crucial defence spending to improve Australia's sovereign industrial capabilities pull public funding away from other projects.

Table 5: The potential fiscal impacts of abolishing the ABCC

Sector	Current total cost	Potential cost increase
Energy	$3 billion	$273 million
Defence	$1.24 billion	$113 million
Housing	$737 million	$67.1 million
Public administration	$272 million	$24.8 million
Road and rail	$22.8 billion	$2.0 billion
Private infrastructure	$404 million	$36.8 million
Health and education	$1.0 billion	$99.8 million
Total	**$30.8 billion**	**$2.8 billion**

[48] Tasmanian Government 2019

[49] The Stawell Times 2018

Australian Capital Territory

$0.33b could grow to $0.36b

Project	Estimated cost	Cost if the ABCC was abolished
Canberra Hospital Extension	$500m	$545.5m
Department of Defence Offices	$262m	$285.5m
ADFA Chemistry Labs Refurbishment	$10m	$10.9m

New South Wales

$34.57b could grow to $38.7b

Project	Estimated cost	Cost if the ABCC was abolished
Southconnex	$2.6b	$2.83b
Powerhouse Museum Upgrade	$840m	$916m
Liverpool Hospital Redevelopment	$740m	$807m
Wyangala Dam Wall Rising	$650m	$709m

Northern Territory

$0.81b could grow to $0.88b

Project	Estimated cost	Cost if the ABCC was abolished
Darwin Ship Lift and Marine Industry	$100m	$109m
HMAS Coonawarra	$55m	$60m
Larrakeyah Defence Precinct	$9m	$9.8m
RAAF Base Darwin	$6m	$6.5m

Queensland

$20.58b could grow to $22.45b

Project	Estimated cost	Cost if the ABCC was abolished
CopperString Transmission Line	$2.0b	$2.18b
Beerburrum to Nambour Rail Upgrade	$551m	$601m
Skye Apartments	$200m	$218m
HMAS Cairns	$6m	$6.5m

South Australia

$4.55b could grow to $4.96b

Project	Estimated cost	Cost if the ABCC was abolished
Cultana Solar Farm	$350m	$381.9m
AIR7000 Remotely Piloted Aircraft	$302m	$329.5m
Ovingham Level Crossing Upgrade	$231m	$252m
AIR555 Airborne Intelligence	$214m	$233.5m

Tasmania

$0.62b could grow to $0.67b

Project	Estimated cost	Cost if the ABCC was abolished
Bridgewater Bridge Replacement	$576m	$628.4m
Bass Highway Upgrades	$50m	$54.5m
Australian Taxation Office Accommodation	$10m	$10.9m
Tasmania Quality Meats – Abattoirs Expansion	$9m	$9.82m

Victoria

$33.23b could grow to $36.25b

Project	Estimated cost	Cost if the ABCC was abolished
North East Link	$15.9b	$17.3b
Hurstbridge Line Duplication	$547m	$596.8m
Barwon Heads Road Duplication	$365m	$398.2m
Nectar Farms' Expansion	$295m	$321.8m

Western Australia

$9.64b could grow to $10.51b

Project	Estimated cost	Cost if the ABCC was abolished
Morley-Ellenbrook Railway Line Extension	$1.22b	$1.33b
HMAS Stirling and Henderson	$280m	$305.5m
Joondalup Health Campus upgrade	$257m	$280.4m

5. Conclusion

Construction is one of Australia's largest industries. It plays a vital role in building the productive capacity of Australia while directly employing 1.15 million Australians and contributing 9% of Australia's economy. The ongoing debate around the future of the ABCC is important given the role the regulator plays in promoting integrity, safety and lawfulness in a key enabling industry which has faced longstanding problems with industrial action.

Consultations and a survey of industry participants highlighted that businesses strongly support the ABCC and the role it plays as an educator, investigator, and mediator during industrial disputes. Businesses highlighted that the ABCC had reduced the amount of disruptive industrial action in the industry, improved safety at worksites, and positively impacted industry culture. Further, businesses emphasised that abolishing the ABCC could lead to increased project costs and would likely hinder worksite productivity.

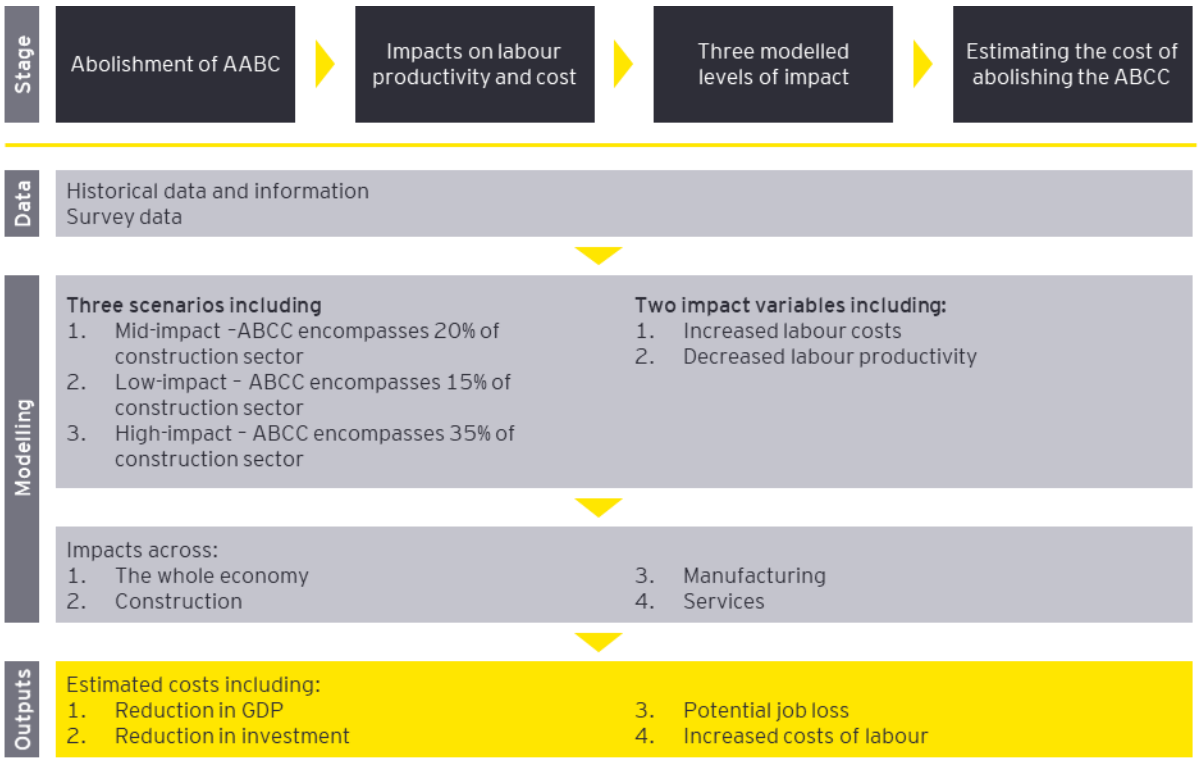
The analysis has highlighted that removing the ABCC would involve economic costs and risks for the country. Australia is already a high-cost country for infrastructure development and additional non-productivity or quality related cost increases, which could manifest through greater industrial action if the industry regulator was dismantled, would be a drag on future economic performance.

In this regard, CGE modelling has highlighted that removing the ABCC could impose economic costs and risks for Australia. Due to the construction industry's interconnectivity with all parts of the Australian economy, any losses in productivity or cost-push inflation in the industry could be a drag on future economic performance. There could be a cumulative $47.5 billion fall in GDP by 2030 if the ABCC was abolished, with a significant reduction in construction industry output and other negative flow-on effects to manufacturing, services, and jobs. If the ABCC was abolished, project costs across all states and sectors could increase. NSW and Victoria are most adversely affected as they have already committed to significant infrastructure investments, however smaller states such as SA and the NT which rely on construction-adjacent sectors such as defence are also impacted. Increased project costs have negative implications for current and future infrastructure projects as current projects require additional funds for completion, and future projects are considered riskier and more costly.

Appendices

Appendix A Modelling methodology

The diagram below presents a high-level summary of the report's modelling methodology:



About the EYGEM model

The EY General Equilibrium Model (EYGEM) is a large scale, dynamic, multi-region, multi-sector model of the global economy, with an explicit representation of both the national and sub-national economies. This detail allows us to consider varying economic impacts across GDP, investment, and employment if the ABCC was abolished. EYGEM is based on a substantial body of accepted microeconomic theory.

EYGEM is dynamic and is solved on a year-by-year basis over a prescribed period. This allows us to consider the forward-looking nature of abolishing the ABCC as well as test a range of different scenarios related to the project including expanding trade and foreign investment. In practical terms, the modelling is based on defining a counterfactual, or baseline scenario, which is then compared with multiple estimates of ABCC domain and if the watchdog is then abolished. Modelling over 10-years provides us with a measure of net economic impacts of abolishing the ABCC.

The modelling captures the direct effects (changes in labour costs and productivity on the construction industry), indirect effects (flow on effects into other industries such as manufacturing and construction) and labour market impacts (job loss and expenditure on labour).

The model projects changes in macroeconomic aggregates such real gross domestic product (real GDP) which is an output measure of the economy, investment, private consumption, employment and expenditure on labour.

Appendix B Detailed modelling results

In addition to the main 'mid-impact' scenario outlined in the body of the report, two additional 'low-impact' and 'high-impact' scenarios were modelled. These results give a lower and higher estimate of the impact of abolishing the ABCC to reflect uncertainty and error in estimating the role of the ABCC, the portion of the construction industry that could be affected, and potential changes in the infrastructure pipeline out to 2030.

Scenario 2 - limited impact

In this limited impact scenario, the ABCC's mandate is estimated to only encompass 15% of the construction industry. The same two potential impacts of abolishing the ABCC are modelled:

- An increase in labour costs of 8.8%
- A reduction in worker productivity of 9.3%

The results below represent a theoretical 'lower-bound' to impacts of abolishing the ABCC as their role in the construction industry is underestimated. The 15% figure is based off of the ABCC's reporting and represents a figure whereby privately funded projects that are typically Code-covered would not face increases in labour costs or decreases in productivity.[50, 51]

Summary of results

The potential overall economic impact of abolishing the ABCC is summarised in the table below. Increased costs and reduced productivity results in reduced construction industry output, which leads to negative effects in connected industries and cumulative negative impacts for the wider economy.

Table 6: The potential short- and long-term impacts of abolishing the ABCC

Indicator	2025	2030
GDP ($)	-11.07 billion	-32.59 billion
Construction output ($)	-13.06 billion	-25.05 billion
Manufacturing output ($)	-3.31 billion	-9.10 billion
Services output ($)	-3.89 billion	-13.05 billion
Investment ($)	-17.50 billion	-32.35 billion
Employment (Full time equivalent jobs per year)	-1,440	-1,474

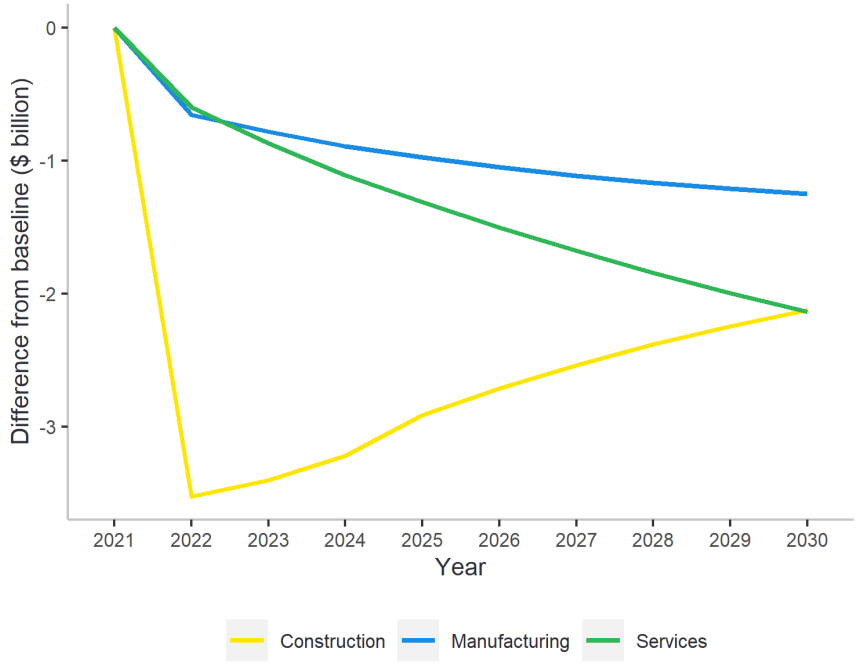
Construction and related industry outputs

Abolishing the ABCC could cost the construction industry alone $3.5 billion in economic output immediately, and $25 billion cumulatively by 2030. While construction recovers, bolstered by high demand and investment, other sectors experience sustained negative flow on effects. Manufacturing could be strongly impacted due to its close links to the construction industry, but losses can level out as construction bounces back. The services industry however experiences long term impacts due to negative impacts on GDP reducing consumption.

[50] ABCC 2020c

[51] ABCC 2021c

Figure 10: The low-impact scenario projected economic loss across sectors from abolishing the ABCC

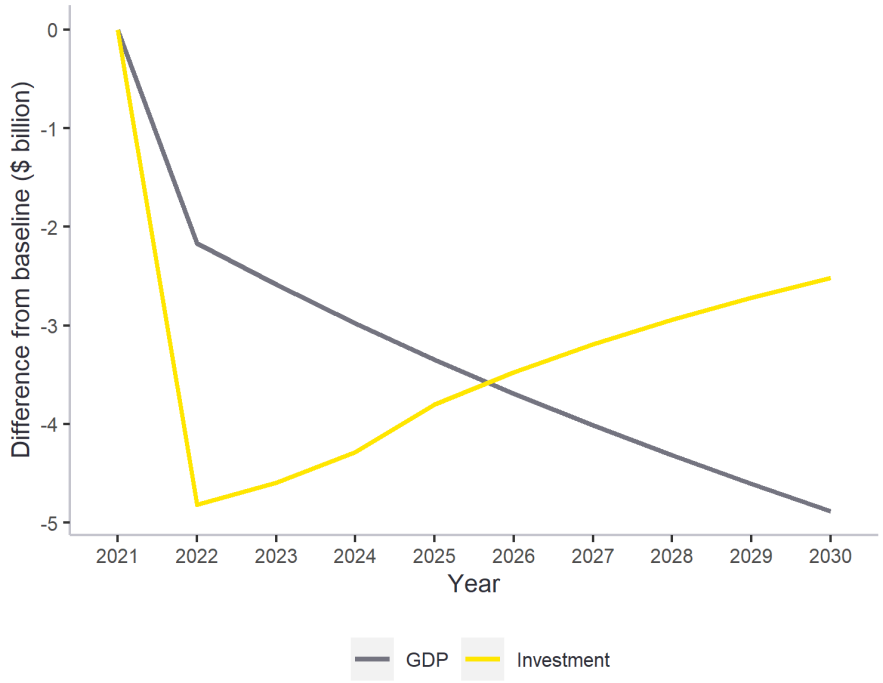


GDP and Investment Impacts

Similar to the mid-impact scenario, abolishing the ABCC could create negative economic impacts that flow through the economy and reduce GDP. Impacts spill over from the construction industry into other construction related industries, spreading throughout the economy.

In this scenario abolishing the ABCC in 2022 could lead to a total economic loss of around $32.6 billion from the baseline by 2030. The graph below shows how GDP and investment are impacted, with losses occurring quickly across the medium-term.

Figure 11: The low-impact scenario projected economic loss form abolishing the ABCC

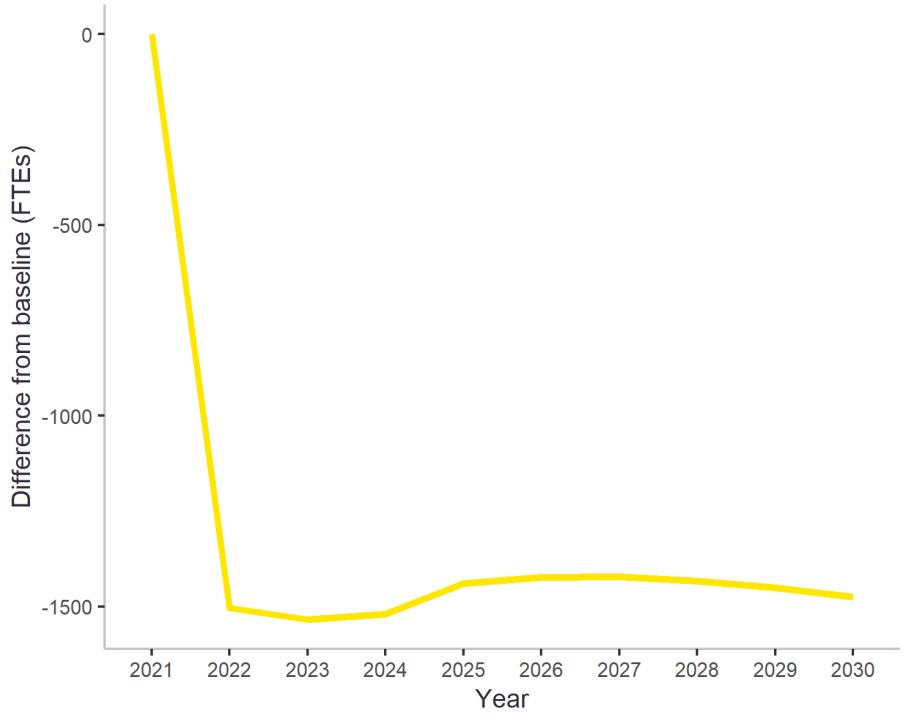


Investment is closely linked to the construction industry, so as productivity drops investment quickly drops. Then, due to high construction demand, investment could recover but still remain below the baseline. Over the forward horizon, investment could fall by $32.3 billion from the baseline.

Employment impacts

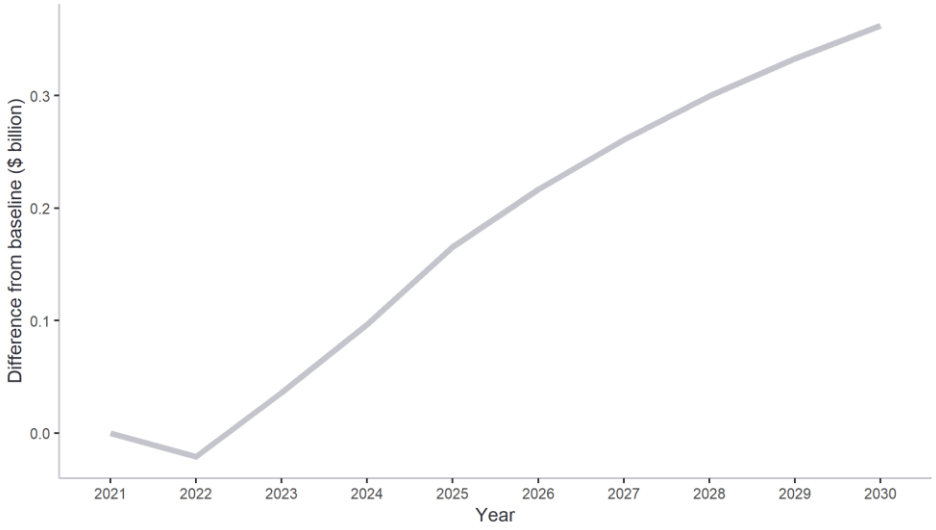
In the low-impact scenario abolishing the ABCC could cost the Australian economy up to 1,500 jobs. Job losses occur immediately as output drops in the construction industry leading to business closures and layoffs. While the construction industry recovers in output, jobs losses continue as firms downsize to maintain profits at higher labour costs. Job losses also occur in related industries such as manufacturing and services due to reduced demand and rising costs.

Figure 12: The low-impact scenario projected employment impacts from abolishing the ABCC



In this scenario, expenditure on labour falls slightly in 2022 due to the increased infrastructure pipeline, before growing to $352 million in 2030 as labour costs increase and productivity falls, requiring construction businesses to spend more on labour to achieve the same amount of output. If the ABCC were abolished, it could cost construction companies $1.7 billion more in cumulative labour costs by 2030.

Figure 13: The potential impact on expenditure on labour



Scenario 3 – high impact

In this high impact scenario, the ABCC's mandate is estimated to encompass 35% of the construction industry. The same two potential impacts of abolishing the ABCC are modelled:

- An increase in labour costs of 8.8%
- A reduction in worker productivity of 9.3%

The results below represent a theoretical 'upper-bound' to impacts of abolishing the ABCC as their role in the construction industry is overestimated. The 35% figure seeks to capture phenomena that may not be captured by the mid-impact scenario. Firstly, if there are labour cost increases on 20% of all projects as in the mid-impact scenario, it is likely that there would be spill over costs to other construction projects. Secondly, the number of projects that are Code-covered is likely to increase over the forward horizon as more companies tender for Commonwealth-funded, increasing the amount of Code-covered companies and thus Code-covered projects. Lastly, the high-impact scenario also takes into consideration the likely growth in Commonwealth-funded and private construction works over the forward horizon.

Summary of results

The table below summarises the economic impact of abolishing the ABCC under the 'high-impact' scenario. Economic losses occur immediately and accumulate to 2030, with significant reduction in output in the construction sector and in related manufacturing and services sectors resulting in an economy-wide reduction in GDP, jobs and investment.

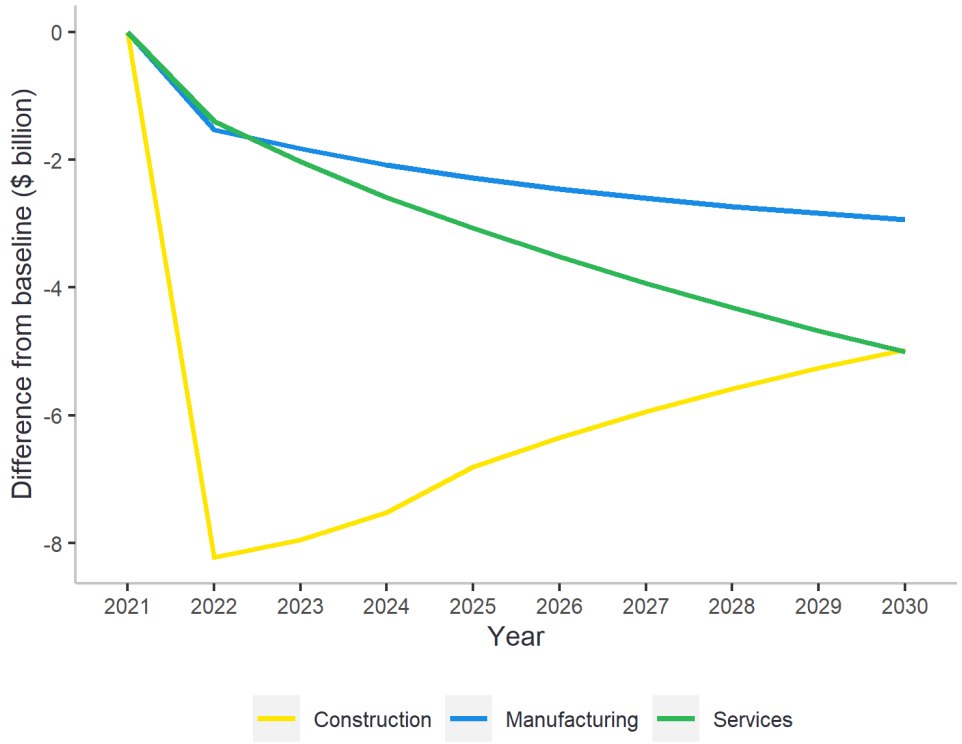
Table 7: The potential short- and long-term impacts of abolishing the ABCC

Indicator	2025	2030
GDP ($)	-25.84 billion	-75.98 billion
Construction output ($)	-30.50 billion	-58.61 billion
Manufacturing output ($)	-7.72 billion	-21.28 billion
Services output ($)	-9.087 billion	-30.53 billion
Investment ($)	-40.88 billion	-75.68 billion
Employment (Full time equivalent jobs per year)	-3,368	-3,451

Construction and related industry outputs

Abolishing the ABCC could cost the construction industry alone $8 billion in economic output immediately, and $58.6 billion cumulatively by 2030. Where construction recovers, bolstered by high demand and investment, other sectors experience sustained negative flow-on effects. Manufacturing could be strongly impacted due to its close links to the construction industry. The services industry also experiences long-term impacts due to long-term negative impacts on GDP reducing consumption.

Figure 14: The high-impact scenario projected economic loss across sectors from abolishing the ABCC

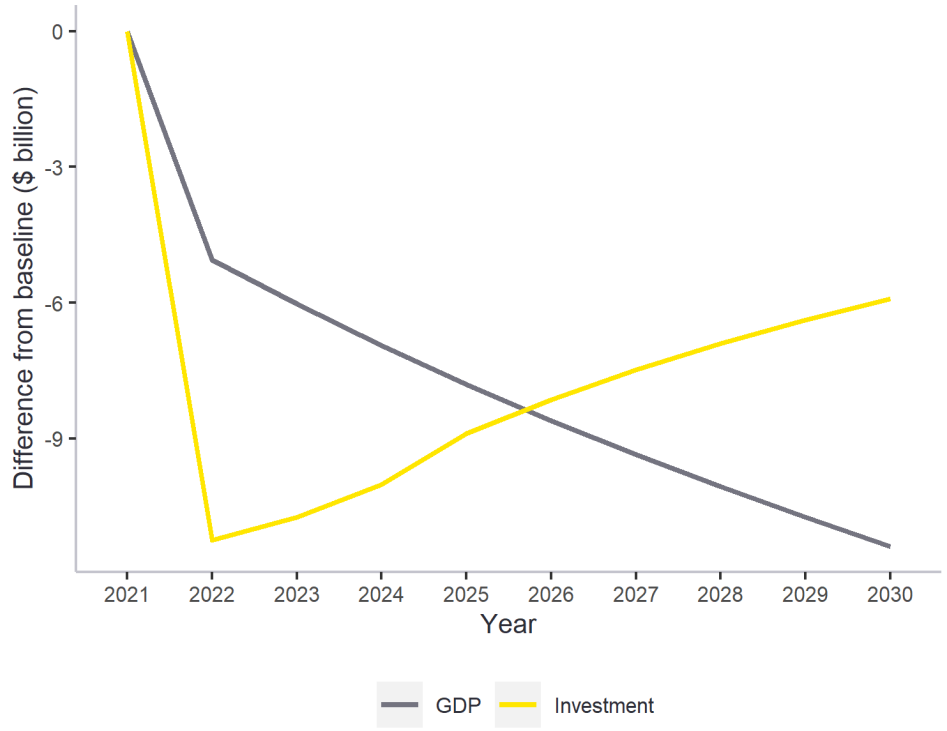


GDP and investment impacts

In this scenario abolishing the ABCC could create significant negative economic impacts across multiple sectors and leading to reduced GDP. Abolishing the ABCC in this high-impact scenario could lead to a total economic loss of around $80 billion from the baseline by 2030. The graph below shows how GDP and investment are impacted.

Due to the close link between investment and the construction industry, investment is strongly and immediately impacted by reduced output from the construction industry. Over time, investment can recover due to high demand for construction and increased investor confidence, however this remains below the baseline. Investment could fall by $75.7 billion from the baseline by 2030.

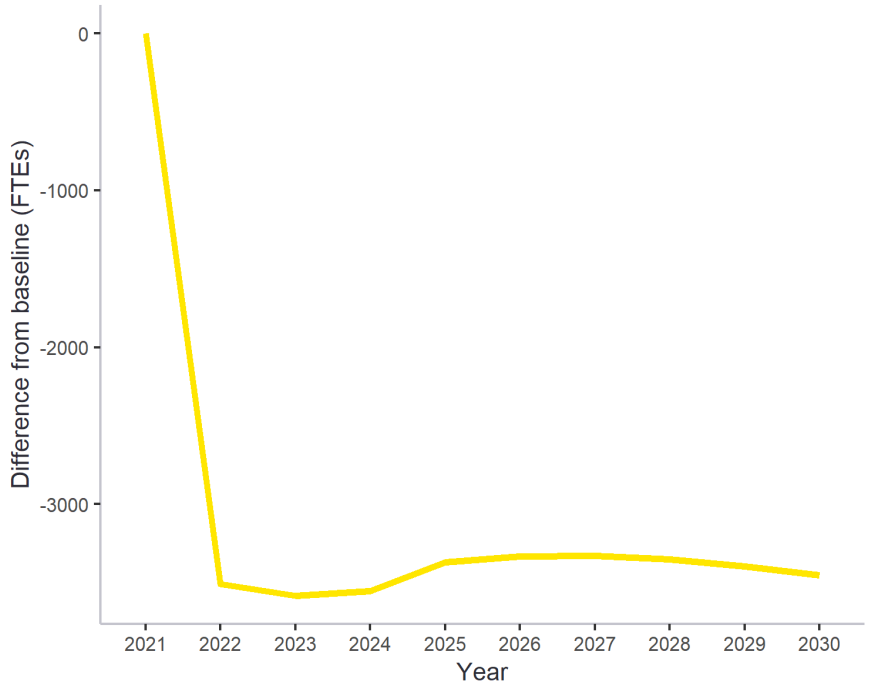
Figure 15: The high-impact scenario projected economic loss form abolishing the ABCC



Employment impacts

In this high-impact scenario abolishing the ABCC could cost the Australian economy up to 3,500 jobs a year. Job losses occur immediately and sustain across the medium-term. Job losses in the short-term can be attributed to business closure and reduced output, while sustained job loss occurs due to firm closure and downsizing, and job loss in related sectors such as manufacturing and services.

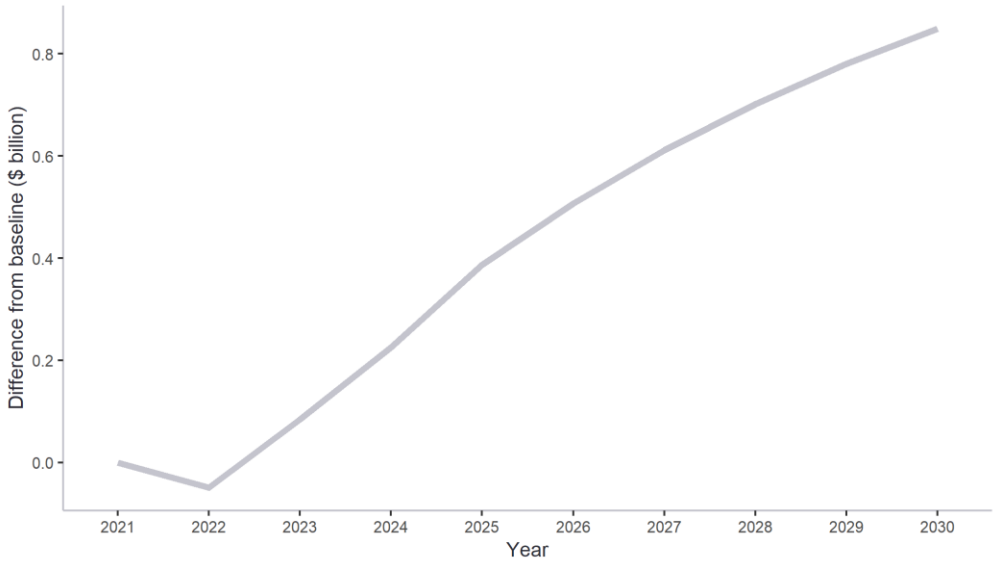
Figure 16: The high-impact scenario projected employment impacts from abolishing the ABCC



However, economy-wide job losses are expected to be less severe than in the mid-impact scenario as the greater fall in labour productivity requires construction firms to hire more workers to achieve the same level of output.

Similarly, in this scenario expenditure on labour falls in 2022 due to the increased infrastructure pipeline, before growing to $849 million in 2030. This large growth in expenditure occurs as labour costs increase and productivity falls across the larger range of ABCC projects. Construction companies could pay up to $4.1 billion more in labour costs by 2030 if the ABCC is abolished in this scenario.

Figure 17: The potential impact on expenditure on labour



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