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ENHANCING VICTORIA'S ECONOMIC PERFORMANCE AND PRODUCTIVITY

Cbus is pleased to provide some brief comments in relation to the discussion paper.

Our comments are primarily focused on:

- The nature and definition of productivity;
- Financial services;
- Construction industry workforce;
- Investing in Infrastructure; and
- Building technologies.

Background

Cbus is the industry superannuation fund for the construction, building and allied industries. Cbus is run only to benefit members and recently received recognition for its 11 years as a platinum rated fund by independent ratings agency *SuperRatings*. Cbus has over 745,000 members, 136,000 employers and \$40 billion in funds under management.

Cbus invests back into the construction and building industry, which not only provides strong long-term investment returns, but helps boost our economy and create jobs within the industry.

Productivity

Cbus would seek to make some broad observations regarding productivity.

1 – The long-term perspective must be paramount. Short term productivity gains are futile if they cause damage through outcomes such as increased and unsustainable carbon emissions or environmental degradation; exploitative labour practices including mass displacement or dislocation arising from a failure to properly plan or transition workers with societal change; or the deployment of substandard or cheap materials.

Sustainability and quality must be considered before adopting any proposal to improve 'productivity'.

2 – Productivity must provide benefits across society – not just for one section of the community.

We are pleased that the discussion paper specifically adopts and advocates a concept of productivity that includes equity considerations.

Modern measures of productivity are largely focused on labour costs and outputs which is an extremely narrow perspective on measures of economic performance and productivity.

Cbus takes a more holistic view in considering what constitutes the productive distribution of capital. For example, issues of liveability (cost of living), engagement and participation, decent employment, gender equity, climate adaptability, multiculturalism, housing affordability, poverty, inequality and mental well-being may be equally important in determining how productively capital is being distributed.

In this context, Cbus is examining how we, as investors of long-term capital, can make a contribution to the UN Sustainable Development Goals (SDGs). The 17 goals and multiple targets were adopted by more than 150 world leaders (including Australia) and came into force in 2016 as a global action plan unrivalled in scope and ambition. They cover everything from innovation in infrastructure, to sustainable cities and clean energy, to ending poverty.

Without seeking that the Panel attempt to boil an ocean, we believe there is room and merit for the Victorian Government to give consideration to how it can engage with industry to make a contribution to the SDGs as part of the process of considering the state's economic performance and productivity.

3 – People are at the heart of productivity.

Of course, it is people who are the drivers of productivity, even in an economy rapidly adopting the next wave of automation and technology.

Unleashing the productive capacity of the state's populace will require more than infrastructure, cities, transport, energy, water, housing and stimulus from Government procurement – as important as these inputs are.

Australian industry is characterized by relatively poor management facilitation and encouragement of employees to innovate, problem-solve, plan and execute strategy.

In part this is symptomatic of the long tails of small businesses operating on a daily transactional basis and often disconnected from broader industry thinking, planning and sharing of learnings.

We support the development of innovation hubs that bring together academic research and industry participants, promoting sharing of knowledge, encouraging testing of ideas and products, and developing new skills. This is important in connecting smaller businesses to bigger industry developments, while lifting innovation and taking advantage of emerging technologies to build local industry.

Another key contributor to the management dilemma is a focus on short-term deliverables as opposed to longer-term sustainability. This drives workplace cultures often typified by a lack of flexibility and diversity, micro-management, work intensification, disengagement and high turnover.

The patient capital of superannuation can play a role here. Cbus is looking to engage with and invest long-term in companies that are demonstrating sustainable strategies and that meet our risk and return appetite. This long-term investment can assist break the short-term cycle typically demanded by traditional debt and equity providers.

What is important for Australian and Victorian economic performance is that the productivity of its people be developed through education and skill development, then deployed through workplaces built on trust, security, inclusiveness and diversity.

Financial Services

As acknowledged in the Discussion paper “Most policy levers for financial services rest with the Commonwealth Government. . .”; however, there are still opportunities for Victorian based activities that can assist financial services at the national level.

We commend the policy levers outlined on page 35 (4.1, 4.2 & 4.3) and encourage the Victorian government to develop and pursue them.

Cbus strongly supports industry-led research and collaboration initiatives to explore innovation in new products and policy design. We have been a proud sponsor of the CSIRO-Monash Superannuation Research Cluster that has provided valuable insights to Cbus, other financial services providers and policy makers at the national level.

The proposed implementation of a FinTech hub that supports collaboration and knowledge sharing across the financial services sector is a welcome initiative that Cbus supports.

We are pleased that the discussion paper acknowledges issues around financial exclusion and access to basic financial products such as a basic banking services, credit or general insurance. Superannuation is primarily a long-term savings vehicle for retirement; however, it can help to provide products such as insurance that may not be easily available for disadvantaged groups or those in high-risk occupations such as construction who may have limited options to obtain insurance as an individual.

Cbus is proud to provide insurance for our members that have provided vital support during extremely difficult circumstances (ie death, injury).

Construction industry workforce

Cbus members build the facilities that support improved productivity and quality of life for Victorians. High quality housing, schools and hospitals depend on our members delivering successful, good quality and efficient projects.

Cbus members and employers, government and community have a direct interest in how the superannuation system invests. For Cbus, the investments made in the built environment through property and infrastructure not only provide strong returns to members they create jobs and contribute to productivity growth.

We support the measures outlined in proposal 5.1 in the Discussion Paper that would aim to “*Encourage upskilling of the current workforce and development of a larger pipeline of new apprentices*”. Initiatives that encourage people to pursue construction careers, particularly women and other groups with low participation rates, will enhance the industry.

Cbus research has also highlighted issues and difficulties faced by older construction workers. Mature-age construction workers who can no longer do the physically demanding work for their industry may experience extended hardship before they reach retirement or qualify for the age pension.

The average age of Cbus members is 38; however, 11 per cent of our members are over 55 years old and considering transition to, or full retirement. The physical nature and casualisation of work patterns in the construction and building sector mean that 41 per cent of Cbus members retire early or unplanned, 36 per cent of those due to unemployment.¹ An ageing population raises fiscal challenges for governments and structural challenges for the

¹ Investment Trends, October 2015. Retirement Income Report: Cbus Client Report

superannuation industry, while increased longevity brings members concern that they will outlive their superannuation.

More ways to retain these experienced construction workers in paid employment could be explored through better skills retraining options and personalized case management for workers aged in their 40s and 50s. The Panel could explore ways to build on current co-operation between key industry stakeholders to enhance skills, especially given the technological changes taking place in the industry that both increase the urgency and the opportunity of tackling these problems.

Cbus is keen to explore the question of what type of different paid occupations might mature-age construction workers do after they are unable to continue with physically demanding labour. We would encourage the Panel to explore initiatives or opportunities for these workers to contribute their skills and experience in other ways.

Investing in infrastructure

Cbus welcomes the proposed reforms outlined in 5.2 regarding the “*Redesign of government procurement processes and methods*”.

Cbus is also an advocate for structures that facilitate greater investment in infrastructure for institutional investors such as Cbus and other superannuation funds. There is clear evidence that investment in fixed capital, and particularly in infrastructure, lifts living standards, productivity and wages. Investing in nation building infrastructure will result in positive outcomes for the Victorian economy and its people.

A paper by Victorian University modelled the impact of infrastructure investment on the broader economy and found that real GDP gains of 0.28% can be sustained through a \$50 billion investment in infrastructure.

With Australian superannuation savings now greater than \$2 trillion and government’s facing fiscal constraints, there is more that superannuation can do in this space for the betterment of our community and economy, while still delivering on the principal objective. We believe that superannuation will play an increasing role in the economy and community, as a source of capital and fiscal relief and an enabler of nation building infrastructure and the development of liveable cities such as Melbourne.

For example, Cbus is open to partnering in consortiums to build affordable housing projects run with government cooperation to achieve valuable social and economic policy outcomes. In doing so, Cbus would be encouraging government and consortia partners to look at how such economic activity can be harnessed to consolidate new and emerging local industry.

Building technologies

There are a range of new technologies and building process emerging in the construction and building industry that will present both threats and opportunities for the industry and employment therein.

Australia has yet to really unleash 3D printing to the extent that other parts of the world have embraced it. Printing of bridges, houses and multi-story buildings are now common place. The implications of which need to be better understood for Australian industry, both for actual construction and the manufacture of building products.

Robotics and Artificial Intelligence (AI) are emerging in the industry replacing human labour in tasks from bricklaying to painting. Likewise, drone technology may start to replace cranes and manual lifting on site.

Prefabrication of buildings has been around for some time but is now reaching a much more mature capability in the Australian and Victorian context. The building of complete houses, apartments, schools and hospitals in factories for assembly on site will become increasingly more common.

This provides Victoria with a key opportunity to grow a new wing of industry that can transition the skills of assembly line, just in time production and logistics developed in the automotive industry into the building manufacturing.

Development of the local prefabrication industry can also ensure adherence with Australian building and materials standards, the adoption of new technologies and assist with the transitioning of ageing workers from traditional manual labour onsite to new offsite manufacturing roles.

The opportunity exists for government to partner with investors, such as superannuation funds, in developing Victoria's prefabrication building industry through affordable housing development and other forms of infrastructure investment such as schools and hospitals.

We also remain supportive of the establishment of a Centre of Excellence for the Victorian building industry that brings together academics and industry to innovate in building processes, products, skills and technologies.

Please do not hesitate to contact James Bennett on (03) 9910 0218 if you have any queries in relation to our submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Atkin', with a stylized flourish at the end.

David Atkin
Chief Executive Officer