



Government of South Australia

Department of the Premier
and Cabinet

*South Australian Government submission
to Senate Education, Employment and
Workplace Relations Committee Inquiry
into the Primary Schools for the 21st
Century Program*

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South Australian Government Submission to the Senate Education, Employment and Workplace Relations Committee Inquiry into the Primary Schools for the 21st Century Program

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Introduction

The South Australian Government acknowledges the significant positive impact that the *Primary Schools for the 21st Century (P21)* program is having on South Australian schools and on our economy.

From the outset, the South Australian Government has fully supported the Australian Government's efforts to mitigate the worst effects of the Global Financial Crisis through the *Nation Building-Economic Stimulus Plan (Economic Stimulus Plan)*, including the *P21* program.

The *Economic Stimulus Plan* was a timely and targeted intervention at a time of enormous global economic uncertainty. Its rapid implementation by all levels of Government has ensured that the Australian economy has been supported during a period of much diminished world growth and serious recessions in many of Australia's key trading partners.

In particular, the decision to direct some of the stimulus funding towards local, smaller scale school infrastructure projects under *the Building the Education Revolution (BER)* program was critical to the construction sector, both nationally and in South Australia.

The building and construction industry is a prime driver of the economy and wealth of South Australia. It accounts for approximately six per cent of Gross State Product and is traditionally characterised by peaks and troughs in activity.

Prior to the Australian Government's announcement of the *Economic Stimulus Plan* in February 2009, it was becoming evident that work in the construction sector was in decline, with many in the industry reporting that work was becoming scarce across the State.

The *BER* program, of which the *P21* program is the major component, has supported the building industry in a time of otherwise declining activity. It also provides schools with infrastructure that will support children and educators for many years into the future.

The South Australian Government acknowledges the significant contribution that *P21* funding is making to the transformation of South Australian schools. In conjunction with the South Australian Government's \$323 million Education Works Stage One, \$82 million Education Works Stage Two Programs and the \$25 million South Australian School Pride Program, which has been running since 2004, *P21* offers an unprecedented opportunity to improve school infrastructure.

Across the entire *BER* program, South Australian schools are receiving funds totalling close to \$1.372 billion. *P21* funding makes up the vast majority of that, with South Australian schools receiving approximately \$1.2 billion of *P21* funding, of which Government schools have received close to \$824 million.

Around 800 South Australian schools are receiving new infrastructure and facility upgrades as a result of the *BER* program, which equates to two projects for many schools.

P21 implementation in South Australia

Recognising the need to ensure that the *P21* was implemented as rapidly as possible, the South Australian government has undertaken a number of initiatives to ensure the implementation of this program meets the Australian Government's requirements.

1. The South Australian Government moved quickly and established the Office of the Coordinator-General to be responsible for the overall management of the program.
2. To facilitate a fast tracked development approval process, amendments to the Development Regulations 2008 were made under the Development Act 1993 to enable South Australia's Coordinator-General to provide formal exemption from the development guidelines for all projects under the *Economic Stimulus Plan*, where deemed appropriate by the Coordinator-General. Approximately 500 approvals for planning rules exemption have been processed since May 2009.
3. The South Australian building industry was engaged early in consultation with the Master Builders Association of SA Inc (MBA). All builders were asked to provide information outlining their capacity such as the number of projects they could take on and the regions in which they would prefer or be able to work.
4. All South Australian builders were provided with the opportunity to become pre-qualified to work for the Government, whether they were previously pre-qualified or not. This process more than doubled the total number of pre-qualified builders to 142.
5. To ensure value for money, whilst remaining cognisant of timeframes, some 25 reference or standard buildings were designed and costed by internal and external cost planners and then priced by a selected group of builders to obtain a target cost.
6. Every effort has been made to meet individual school requirements. Where standard buildings were deemed to be inappropriate, individually designed buildings or refurbishment works have been agreed. In these cases builders and their design teams have been required to develop the project documentation and offer a fixed design and construct price within the budget.
7. All builders were allocated projects based on the information they provided and asked to submit a fixed design and construct price for each project in each school.
8. Builders that have been unable to meet the Government's target price for their allocated project have had their project allocated to other builders.
9. The amount of information provided by builders in the pre-qualification stage allowed the Office of the Coordinator-General to match local builders to local *P21* jobs in regional South Australia wherever possible.
10. To encourage the employment of apprentices, trainees, Indigenous Australians and local people with barriers to employment, all contracts for school projects also contain a target of at least 10 percent of the total hours worked during the contract to be undertaken by people from these groups.

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11. Regular contact is being maintained with sub contractors and suppliers through the MBA and Construction Industry Training Board, which is indicating that South Australia is well placed to meet supply demands for labour and materials.
12. Industry briefing sessions have been held as required to engage building contractors and to explain the new processes in place, in particular communication, contractual and planning arrangements.

The processes used by the Office of the Coordinator-General in South Australia enable the Government to be confident that:

- value for money outcomes are being achieved at all school sites
- all schools are receiving the best possible and most suitable facilities
- South Australia is not experiencing issues of price escalation or supply constraints with the P21 program.
- changes to planning regulations have streamlined implementation
- local regional builders are being employed at all regional schools sites where the required skills and capacity exist
- employment outcomes for apprentices, trainees, Indigenous people and those with barriers to the workforce are being achieved

Because of the decisive action taken by the South Australian Government to facilitate the program roll-out, specific design and construct contracts have been negotiated for all Round One Government school sites and the majority of Round Two sites for the *P21* program.

Prices are currently being negotiated and/or finalised for Round Three *P21* schools. In addition, there have been 40 projects approved for public secondary schools under the *Science Language and Learning Centres* component of which the majority of these projects have been allocated to builders. The *National School Pride* component is also well underway with schools managing these projects locally.

Economic benefits of the P21 program

At the time the Global Financial Crisis hit, South Australia's economy was in a strong position. State Final Demand (SFD) was growing at over 7% per annum (September quarter of 2008), employment was at near record levels and unemployment was 5.1%, in trend terms (September 2008).¹

Despite the South Australian economy fairing relatively better than a number of other state economies, by the March quarter of 2009 there was a noticeable downturn in most economic indicators.

¹ ABS Cat No: 5206.0 and 6202.0

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Annual SFD growth had reduced to 5% and unemployment had risen to 5.7% (February 2009). While unemployment remained relatively low, this was a function of businesses reducing hours, rather than laying off workers.

Full-time employment declined markedly, with part-time employment growing strongly over the same period. Underemployment, or those working less than they wanted to, jumped almost 18% (trend terms) between August 2008 and February 2009 and has continued to rise since.

Business confidence also fell to two-year lows by the March quarter of 2009.²

Jobs ads had fallen by, in annualised terms, almost 49% by March 2009.³ Sales of new motor vehicles were down 18% from the previous year and South Australian real retail turnover was flat in the March quarter 2009 after a fall of 0.9% in the previous quarter.⁴

In the last State Budget, the South Australian Government predicted Gross State Product would fall by 0.5 percent and employment by 1.5 percent in 2009-10, due to the significant downturn in economic activity resulting from the Global Financial Crisis. At the time of these forecasts, predictions of a global recession were prevalent and decisive stimulus actions were yet to be taken by a number of leading countries.

However, the environment has since changed, with a worldwide coordinated effort to stimulate major economies resulting in milder global recession than anticipated. In Australia, this has manifested itself in better than expected employment, spending and confidence statistics.

While there is still uncertainty about the future, a number of more recent economic indicators for South Australia are showing a positive outlook for the state:

- overall employment is almost back to pre-crisis levels and the unemployment rate is stabilising (trend terms)
- job advertisements are starting to rise again after significant falls
- consumer confidence is rebounding strongly after a period of decline
- retail trade is continuing to grow
- business confidence in South Australia has significantly improved, and depending on the survey, is at pre Global Financial Crisis levels
- business investment remains at record levels, and
- the decline in the number of building approvals has stabilised, and signs of future growth is apparent with a significant increase in housing finance commitments.

Confidence in South Australia is rising, in part due to stable and low unemployment and the improvement in the national economy.

These factors have been heavily influenced by both the sustained infrastructure expenditure of the South Australian Government and the rapid action of both the Reserve Bank in cutting

² Commonwealth Bank/Business SA Survey of South Australian Business Expectations

³ ANZ Bank

⁴ ABS Cat NO 9314.0 and 8501.0

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interest rates, and the Australian Government's implementation of the *Economic Stimulus Plan* of which the *P21* program has played a central role.

The importance of the *Economic Stimulus Plan* and *P21* is widely recognised by economic commentators.

- The National Australia Bank's Monthly Business Survey and Economic Outlook September 2009 indicates increases in confidence in the construction sector, increases in infrastructure spending, especially for school rebuilding phase, and signs of improvement in capacity utilisation driven by construction and manufacturing where fiscal initiatives such as the school repair and infrastructure programs have been important.
- The Access Economics' Business Outlook for the September Quarter notes that commercial building in South Australia has rebounded, driven by Australian Government Stimulus school works.

As outlined previously, *P21* has played a crucial role in providing work to the construction sector in a time of declining private sector building activity.

In South Australia, 142 building contractors have been allocated Government school projects. The majority of these contracts have gone to medium and small size businesses. There are also well over 300 sub contractors working with these building contractors.

Across Australia, the Australian Government expects that the *Economic Stimulus Plan* in its entirety would help support and sustain up to 90,000 jobs over the next two years. The *P21* program in South Australia is certainly well on track to contribute to achieving this target.

The South Australian Government estimates there will be over 5,200 new full time equivalent positions created from Government school projects over one year. Including those jobs indirectly linked to *P21* through production and supply chains, this figure rises to 21,000 new full time equivalent positions – applying this same formula for all school projects, these numbers would be 7,000 and 28,000 respectively.⁵

To illustrate the validity of the aggregate employment estimate outlined above, South Australia's Office of the Coordinator-General recently requested that the 142 building contractors and their main sub contractors for Government school projects report on employment outcomes as a result of the additional *BER* work.⁶ They were requested to provide information on the number of indigenous and non indigenous apprentices/trainees employed, as well as total employment.

It should be emphasised that the survey covers work undertaken at the initial stages of the *BER* program and therefore results are preliminary. Results of the survey to date indicate that 883 additional people have so far been employed as a result of the additional work. Of the 883, 31 percent are apprentices/trainees and approximately eight percent are indigenous, both key target groups.

⁵ These estimates are based on models of industry employment provided by Dr Andrew Wilson, Senior Economist at Rider Levett Bucknall

⁶ Building contractors and their sub contractors reported on the additional *BER* work which includes *P21* and Science Language and Learning Centres. Some building contractors and their sub contractors may be doing work at both government and non government schools, which may include National School Pride work. Survey undertaken 6 to 9 October 2009. Results have been extrapolated from 100 surveys received and 77 sub contractors contacted as at 11am 12 October 2009.

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All building contractors and sub contractors report they have either employed additional staff or retained staff that would otherwise have become unemployed. As these figures reflect activity predominantly from early stage Round One *P21* activity, it is clear that further employment gains will be made as program implementation progresses. This reinforces the validity of assuming 5,200 FTE per year, when full time construction activity is underway and both retained staff and new employees are accounted for.

Table 1: Number employed as a result of the additional Building the Education Revolution work				
Apprentices/Trainees Non-Indigenous	Other Non-Indigenous	Apprentices/Trainees Indigenous	Other Indigenous	Total
240	572	34	31	883

Through consultation with industry additional to the survey, it is evident that apprentice commencements are increasing for the first time in twelve months, which reflects the importance of the *P21* work to the construction industry.⁷

Information from the building industry illustrates that the work under the *P21* program has made it possible to retain existing staff and to employ additional people. The case studies below provide an indication of importance of the *BER* work (largely consisting of *P21* work) to builders and subcontractors.⁸

- WCK Pty Ltd of Port Lincoln, reported that due to the slow down in the building industry earlier in the year full time numbers had reduced rapidly. Receiving the additional *BER* work allowed them to consolidate and hire an additional eight staff, of which six are apprentices. All of the apprentices will be rotated through the *BER* schools projects providing them with invaluable experience. Further to this, WCK Pty Ltd is employing local sub contractors and suppliers for works on these projects further demonstrating the flow on effect to the building industry trades.
- Kennett Pty Ltd, a fourth generation family business in Mount Gambier, has also employed an additional seven staff of which two are apprentices/trainees. Kennett Pty Ltd's sub contractors are also reporting that they have been able to retain and or employ additional staff, whilst also adopting the spirit of the program in trying to spread around orders to different suppliers in their area to support local products.
- For Taipan Constructions Pty Ltd, based in Adelaide, the additional *BER* work also came at a much needed time. Taipan Construction Pty Ltd has employed two additional staff, of which one is an apprentice and have also secured local sub contractors and trades for their projects.

⁷ GTASA Correspondence, 20 October 2009.

⁸ All information on building contractors and schools has been sourced from case study information that appears or that has been sourced for use on the South Australian Office of the Coordinator-General website.

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- The continuity of work provided by the BER has been crucial for CO Juncken Builders Pty Ltd, located in Nurioopta, as they have been able to retain existing staff. In addition the extra work is benefiting local subcontractors in the area.

Benefits to schools

Schools and their local communities will benefit both immediately and in the long term from the *P21* program by receiving new and improved facilities. For many schools, the additional funding is enabling them to build facilities that would otherwise not have been built, providing infrastructure which supports better learning outcomes for students.

A range of case studies illustrate the benefits that the *P21* program is providing:

- Highbury Primary School's new library will be a modern purpose-built resource facility and is part of a suite of improvements being made to the school with the *BER* funding. The school is also receiving refurbishment works to its existing hall which will be used as a multifunction self-contained facility for students to play instrumental music, undertake sports activities and participate in performing arts.
- Lake Wangary Primary School is receiving a new hall which will also be available for community use as required. The school is also receiving refurbishment works which will give the school a refreshing lift.
- Nurioopta Primary School will be receiving a new hall which will not only be used by the school but will also be open to smaller local community groups such as the local rock and roll group and senior citizens group. The school is also well underway with its refurbishment works which will include upgrading a 12 teacher open space building.

South Australia's support for the P21 program

Based on the economic benefits of *P21* and its benefits to schools and students, the South Australian Government strongly supports the continuation of the program.

The basis on which the *P21* was implemented, via individual contracts for each project, has meant that it has had immediate effect as a stimulus to all parts of the building and construction industry in all regions of the state.

Any reduction in *P21* funding from announced levels would have a dramatic and far-reaching impact on the building industry in South Australia. Builders increase or reduce their staff resources based on the available work they can see in the pipeline. *P21* commitments form a significant part of this work pipeline. Builders have made commitments to staff based on their expectations of the full three phases of the program.

If the program is prematurely terminated without fulfilling the previously indicated level of building work, there will be job losses in the construction industry, with significant implications for the rest of the economy and for business and consumer confidence. There is not yet sufficient evidence of a rebound in private sector activity to justify the removal of the stimulus from *P21*.

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Key industry representatives, including the MBA, share this view. The MBA have reported that the *BER* program in South Australia was implemented at a time when the commercial industry was in decline, with architects, builders and subcontractors putting off staff.⁹

The MBA is also reporting that the industry has geared to meet the demand of this additional work and that any scaling back of the program would have severe financial consequences for business and employment.

Fairness to schools is another important consideration. Within South Australia, a number of schools have facilities scheduled for completion at the end of 2009 with the balance scheduled for progressive completion during 2010. If commitments under the program were reduced it would result in some schools in South Australia missing out on the benefits of new facilities, while others benefit directly in the near term. This would create inequalities within the education system and disadvantage one group of students over another.

Despite better than expected economic conditions, South Australia continues to feel the impact of the global economic downturn. The timing of the anticipated recovery in private sector construction activity is still no certainty. The untimely withdrawal of the Australian Government's economic stimulus package, or any of its components, including the *P21* program, will have significant consequences for the economy.

The South Australian Government believes that it is essential that the *P21* program continue. The program is not only supporting the construction industry in the short-term, but it will result in social benefits accruing through improvements to Australia's education infrastructure.

⁹ Correspondence from the MBA