

## Is Victoria's Local Jobs First Policy living up to expectations?



by Chigozie Victor Ndukwe August 27th, 2024



**The Local Jobs First (LJF) Policy was first introduced in Victoria in 2001 to support the local manufacturing sector.**

Since August 2018, the [LJF policy](#) has advocated a commendable minimum local content of 90 per cent for strategic projects worth at least \$50 million and 80 percent for standard projects valued below \$50 million.

In the last ten years, the Victorian Government has invested \$164 billion in construction projects under the policy. The Department of Jobs, Skills, Industry and Regions (DJSIR) [reports](#) that 2,836 construction contracts have been awarded. This has created 62,756 business opportunities for SMEs, 43,556 openings for local workers and 6,212 placements for Victorian apprentices, cadets and trainees.

In addition to the overall local content threshold, the Minister for Jobs and Industry has set additional requirements for 349 strategic projects valued at \$87.1 billion. These focus on steel and furniture, fixtures and equipment industries.

However, critics argue that it is inefficient to spend more taxpayers' dollars buying local materials/products that often cost more than imported substitutes. A recently completed PhD research project which I completed at the University of Melbourne evaluated the effectiveness of the LJF Policy.

The research discovered that although several local firms have benefited from the LJF Policy, price pressure and import competition compel construction

companies to buy cheaper imported substitutes instead of local materials in public projects.

### **Price pressure and rising import competition**

Speaking to head contractors, I observed that builders are subjected to cost escalation and work on tight margins. A construction manager in a Tier-1 building firm said:

“It’s a highly competitive environment, and we are getting squeezed on our prices. The only way to win the job is to lower our margins, but we can’t do that because our margins are very skinny. So, we go offshore to reduce the price of materials”.

Consequently, head contractors and suppliers apply pressure on manufacturers to reduce prices amid intense import competition. Two management staff of a steel roll forming company and a vinyl floor producer confirmed overseas price competition, especially from China. The sales manager of a glass manufacturer reiterated intense import competition to fit into the budget of head contractors:

“We lost tens of millions even though we had more than two-thirds of the market share because the percentage of imports to local demand had swung from below 40 percent to 60 percent”.

### **Challenges of the LJF Policy**

To counter import competition, the Victorian Government supports local manufacturers by using the LJF Policy to buy often more expensive local materials for public projects. Nevertheless, my research uncovered cases where local manufacturers could not supply products to public projects due to cheaper imported substitutes.

Three manufacturers and the Victorian Secretary of a major trade union affirmed that builders replace local products (steel and vinyl flooring) in public projects post-contract award. Particularly, the Engineering Manager of a steel rollformer stated that:

“This well-intentioned local participation requirement is very poorly policed. And we are still competing against imports, even when local content is specified because nobody checks where the other distributor gets their materials from”.

The case of SME manufacturers is more challenging because of their limited resources. The head of a manufacturers’ association representing about 200 firms revealed that members are reluctant to report non-compliant practices for fear of exclusion from future projects:

“We have spoken to the LJF Commissioner severally. But talking about the individual product is impossible because it is so specialised that the producer’s identity would be revealed. So, they told us based on confidentiality”.

Most SME manufacturers interviewed agreed with this observation and insisted that the Victorian Government should ensure that head contractors achieve their local content targets after winning contracts.

However, the LJF Commissioner did not include the results of post-construction audits in the 2021-22 and 2022-23 annual reports. The “Engagement and

*compliance*" sub-section was omitted from the 2022-23 annual [report](#). Such an omission raises questions about the effectiveness of monitoring and auditing local content achievements.

#### **Four Actions Needed**

The LJF Act 2003 positions the Commissioner at the forefront of enforcement. There are four suggestions to improve the effectiveness of the LJF Policy.

First, the LJF Commissioner should **report the outcomes of post-construction audits** as was done up until the 2020-21 fiscal year.

The LJF Policy requires agencies to report the local content achievements of their head contractors and steel suppliers because the LJF Commissioner does not have the legal authority to conduct onsite investigations, as acknowledged by the Victorian Government in a 2023 [Consultation Paper](#).

Nevertheless, self-monitoring and reporting raise a conflict of interest for agencies and [head contractors](#) that procure construction work with limited budgets. Therefore, the Victorian Government should **empower the LJF Commissioner with expanded investigative powers and resources**, enabling onsite monitoring and auditing during construction to minimise the replacement of local steel products.

Onsite monitoring and auditing will provide the data on local content achieved by agencies, head contractors and suppliers. So, the DJSIR should **focus on local content achieved, instead of committed**. This method will allow for comparing the local content achieved with what was committed and identifying the reasons for any differences

Lastly, the LJF Commissioner and the Minister of Jobs and Industry should rely on onsite compliance data to **penalise firms and individuals who don't comply** as specified by the LJF Act 2003. These penalties would help prevent future violations of the Act.

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