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Civil Contractors Federation National
Federal Government 2020-2021 Pre-Budget Submission

1. Introduction

Civil Contractors Federation National (CCF) thanks Federal Treasury for the opportunity to provide this submission on behalf of the civil construction sector for the 2020-2021 Budget.

CCF is the peak employer body representing 1,900 companies engaged in the civil construction industry in every jurisdiction of Australia. CCF Members are responsible for the construction and maintenance of Australia's infrastructure, including roads, bridges, pipelines, drainage, ports and utilities.

CCF has actively encouraged the Federal Government to maximise the productive capacity of the civil construction industry since the outbreak of the Coronavirus in Australia, providing practical policy proposals that have taken on added importance in recent months following confirmation that the Australian economy is in recession.

In this regard, CCF welcomes the Federal Government's ongoing commitment to infrastructure investment to help stimulate local economies both during and beyond COVID 19. These Commonwealth infrastructure investments, complemented by significant commitments at the state and territory level, are critical to supporting Australia's civil construction industry, which CCF estimates employs around 1.1 million Australians and adds approximately $134.2 billion to the Australian economy annually, accounting for around 8.9% of GDP.

2. Executive summary

The CCF submission to the 2020-2021 Budget puts forward a number of practical policy proposals aimed at:
- harnessing the economic capacity of the civil infrastructure sector;
- boosting the economy and supporting jobs during this worsening economic climate;
- strengthening industry's foundations to put it in a stronger and more sustainable footing.

In summary, these policy proposals include:

i. *Additional funding to the civil infrastructure sector to maintain confidence, support investment and keep Australians in their jobs.*

ii. *Government use of 'debt-funding' to take advantage of historically low interest rates and to invest these funds in productive infrastructure projects.*

iii. *Contributing to a more sustainable Australian civil construction industry by adopting a more balanced project allocation policy. Examples of how this can be achieved include: where possible disaggregation of contract size that foster broader competition and a sustainable contracting industry; procurement reform, establishment of local participation requirements (at employment and product source level only); and, a focus on contracting models to ensure Tier 2 and 3 contractors secure more work and can mature commercially.*

iv. *Increasing the level of training, education and funding for up-skilling in the civil infrastructure sector, and inclusion of civil construction occupations on the National Skills Needs List.*

v. *Creation of a specialised 'Civil Construction Working Group' comprising representatives from CCF and Government to discuss and develop a 'Supplier Payment Policy' for all public bodies involved in federally funded civil infrastructure projects.*

3. Policy Proposals

3.1 Additional funding to the civil infrastructure sector stimulate the Australian Economy

There is a growing need to commit additional funding to the civil infrastructure sector to maintain confidence, support investment and keep Australians in their jobs**.** The civil infrastructure sector is in a strong position to positively respond to increased investment in infrastructure, despite the growing threat of more severe restrictions being imposed by Governments to slow the spread of Coronavirus.

While some sectors of the economy have obviously been significantly affected by COVID 19, thereby restricting their capacity to operate and limiting their future capacity, the same does not apply to the civil construction sector. This is due, in part, to industry's ability to comply with the social distancing regulations given civil construction sites are typically large, horizontal road, rail, bridge, tunnel construction sites.

Civil Infrastructure underpins all economic advancement opportunities and if we are to see growth in tourism, agriculture, horticulture, mining, gas exploration, defence, as well as improvements in health and education outcomes, increased investment in enabling infrastructure must be a priority for Government.

Investment in enabling infrastructure needs to be prioritised with funding committed to see growth returned to our economy and to strengthen private sector investment across key industries that will help build a stronger more resilient economy.

The civil infrastructure sector's ability to positively respond to increased infrastructure investment is also demonstrated by data CCF has obtained from its members regarding capacity and employment intentions. A survey[1] carried out by CCF of its members in April 2020 confirmed that the civil infrastructure industry, unlike other sectors in the economy, is in a very strong position to provide a boost the national economy given the ability of most sectors of the industry to immediately take on more work and to take on more people.

The CCF Member Survey found that over 90% of companies would be in a position to tender for projects in the value range of 0-$50 million if the Government increased funding for civil construction projects, and that 64% would need to employ additional people if they were successful in tendering for a new infrastructure project/s.

Recent figures from the Australian Bureau of Statistics highlight the need for a stronger commitment to infrastructure in the 2020-2021 Budget. ABS's *Engineering Construction Activity Report, March 2020*[2], found the trend estimate for the value of total engineering construction work done fell 0.8% in the March quarter, or a 3.9% decrease from March 2019.

This decline in construction activity brings into sharp focus a key finding from the 2017 BIS Oxford Economics Report / Civil Contractors Federation *Australian Infrastructure Outlook Report*, which said "the loss in positive 'multiplier' effects from declining construction activity is keeping growth in national domestic demand and Gross National Expenditure restrained."

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[1] https://www.civilcontractors.com/wp-content/uploads/2020/04/Civil-Contractors-Federation-National-COVID-19-Member-Survey-Report-170420-Final-1.pdf

[2] https://www.abs.gov.au/ausstats/abs@.nsf/mf/8762.0

CCF's concerns are magnified when Australia's growing infrastructure gap is taken into account. A report[3] by the Global Infrastructure Hub shows that on current trends, Australia's infrastructure gap in 2040 will be US$158 billion with Australia slipping behind the investment levels needed across roads, rail, airports, ports, telecoms and electricity. Further, the McKinsey Global Institute (MGI) estimates the shortfall between current infrastructure investment levels and needs (2017–35) to be 1 percent of GDP[4].

3.2 Use of Debt Funding to Increase Investment in Infrastructure

It is widely recognised that for every dollar of public investment in infrastructure, the return can generate GDP increases adding up to $4 of value over the life of the asset. This multiplier effect and its benefits are often felt most keenly in rural and regional communities and is amplified when the infrastructure spend is disaggregated and spread across as many tier 2 and tier 3 Australian civil construction companies.

CCF therefore encourages the Government to increase its level of infrastructure investment in the current economic climate **by using debt funding for productive infrastructure** to stimulate the economy both during and after the pandemic whilst interest rates are at historically low levels.

In this regard, CCF notes and supports recent comments by Reserve Bank Governor Philip Lowe who has recently urged the federal government to borrow more and boost public spending to support the country's economic recovery. In particular, CCF notes Mr Lowe's comments in his 21 July 2020 speech[5] when he talked about the importance of the Federal Government using its balance sheet to smooth out the scars from the economic downturn, and to reduce its severity.

> *In principle, this smoothing function can work in a few ways. One is through direct transfers to households and businesses. Another is for the government to spend money directly itself on activities that create jobs. The JobSeeker and JobKeeper programs are examples of the former and spending on infrastructure and public health are examples of the latter. Both are important….*
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> *…Using the public balance sheet in this way inevitably requires government borrowing against future income. It is through this borrowing that we are able to smooth out the hit to our current income. For a country that has got used to low budget deficits and low levels of public debt, this is quite a change. But it is a change that is entirely manageable and affordable and it's the right thing to do in the national interest.*

These comments were reinforced more recently by Mr Lowe, who told the House of Representatives Standing Committee on Economics that:

> *To date, I think many of the state governments have been concerned about having extra measures because they want to preserve the low levels of debt and their credit ratings. I understand why they do that, but I think preserving the credit ratings is not particularly important; what's important is that we use the public balance sheet in a time of crisis to create jobs for people. From my perspective, creating jobs for people is much more important than preserving the credit ratings. I have no concerns at all about the state governments being able to borrow more money at low interest rates. The Reserve Bank is making sure that's the case. The priority for us is to create jobs, and the state governments have an important role there, and I think, over time, they can do more. But the federal government may be able to do more as well. We may need all shoulders to the wheel[6].*

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[3] https://s3-ap-southeast-2.amazonaws.com/global-infrastructure-outlook/countrypages/GIH_Outlook+Flyer_Australia.pdf

[4] https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Asia%20Pacific/Australias%20infrastructure%20innovation%20imperative/Australias-infrastructure-innovation-imperative-final.pdf

[5] https://www.rba.gov.au/speeches/2020/sp-gov-2020-07-21.html

[6] Reserve Bank of Australia annual report 2019, Friday 14 August 2020

This view is shared by the Grattan Institute, whose report *The Recovery Book*[7], said:

> *Australia has the fiscal space to borrow to support the economic recovery, having come into this crisis with low debt levels by international standards. Australia's net debt was about 23 per cent of GDP, compared to net debt of 75 per cent in the UK, 85 per cent in the US and more than 150 percent in Japan.*
> *And it has never been cheaper to borrow. The Australian Government 10-year bond rate is now less than 1 per cent. Adjusted for inflation, the real interest rate at which the Federal Government can borrow is below zero.*
>
> *Governments can lock in these low interest rates by issuing longer- dated bonds, reducing the risk that debt will have to be rolled over at higher rates in future. Even if gross debt reaches over $800 billion by 2021-22 – as the Parliamentary Budget Office suggests it could – interest payments associated with the additional ~$300 billion would be only about $3 billion a year. This means the Government has the space to do Whatever it takes to boost employment.*

Borrowing to take advantage of historically low interest rates to invest in productive infrastructure would provide greater certainty to the private sector with regard to the Government's longer-term infrastructure pipeline.

Borrowing to invest, rather than an over reliance on bringing forward funding from the existing Infrastructure Program, is necessary to ensure a sustainable and balanced infrastructure pipeline in the medium to longer term. It would also boost business confidence and support increased capital investment in plant and equipment necessary to support civil infrastructure projects.

In addition, CCF is supportive of redirecting any surplus funds from the 'social infrastructure' programs, such as JobKeeper, toward the civil infrastructure project pipeline. Such a reallocation a would also serve to support the Government's policy objective to transition unemployed Australians to sectors of the economy where strong employment growth is expected.

3.3 Industry Sustainability

Greater federal investment in infrastructure should run in parallel with an increased policy focus to create a more sustainable Australian civil construction industry. This can be achieved by adopting a more balanced project allocation policy. Examples of how this can be achieved include:

- disaggregation of contract size;
- procurement reform;
- establishment of local participation requirements (at employment and product source level only); and
- a focus on contracting models to ensure Tier 2 and 3 contractors secure more work and can mature.

Disaggregating (or de-bundling) large infrastructure projects, like the Inland Rail project which has been structured into 13 separate projects, will encourage greater participation from tier 2 and tier 3 contractors. This in turn will help create the conditions to enable smaller contractors to grow into mid-tier contractors, and mid-tier contractors into tier 1 contractors.

Some State Governments have responded to industry calls for de-bundling by implementing local participation policies to encourage the use of local suppliers/subcontractors on mega projects. These policies do not address the key issues, which is providing head contracting opportunities to local Tier 2 and Tier 3 contractors. These businesses are typically structured to self-deliver head contracts, not subcontract, and they are unable to accept the risk profile of subcontracts on mega projects.

[7] https://grattan.edu.au/wp-content/uploads/2020/06/Grattan-Institute-Recovery-Book.pdf

IFM Investors recently released a report[8] advocating this approach. IFM, which is owned by 27 Australian industry superannuation funds, is calling for major projects to be broken up into smaller packages, enabling them to be shovel-ready faster, and allowing mid-tier contractors – not just large contractors – to compete in bidding processes. This view is strongly supported by CCF.

3.4 Training, Education and Skills Investment

Increased investment in infrastructure must, however, run in parallel with a number of other much-needed reforms, including the need to increase the level of training, education and funding for up-skilling in the civil infrastructure sector, and inclusion of civil construction occupations on the National Skills Needs List.

CCF notes a recent report by McKinsey[9] that found Australia could potentially need an additional 260,000 to 385,000 infrastructure construction workers over the coming years if the projected infrastructure pipeline materialises, which could potentially be exacerbated by the coming ramp-up of mining production. The report also noted that bridging the gap will require better managing both the demand for workers and their supply, including upskilling the current workforce, reframing the culture of the industry to retain more talent, and seeking ways to increase the talent pool and train the future workforce.

Better managing the supply of workers in the industry hinges on ensuring apprentices, VET providers, and employers gain access to funding incentives provided by the Federal Government. Unfortunately, they are ineligible for funding under the Government's flagship program - the Australian Apprenticeships Incentives Program (AAIP) – because many civil construction skills do not presently appear on the National Skills Needs List. These civil occupations, including bridge, road and tunnel constructors, civil plant operators, pipe layers and line markers, needed to be added to the NSNL as a matter of urgency to ensure industry is not hampered in its efforts to deliver the Government's infrastructure agenda.

3.5 Procurement Reform

The recent meeting of the Transport and Infrastructure Council reaffirmed Ministers' commitment to an infrastructure-led recovery, spearheaded by streamlining infrastructure processes and environmental approvals. CCF welcomes this approach, however, it needs to be broadened to ensure there is a stronger focus at the federal level on procurement reform to ensure projects can come to market in a more efficient and effective manner.

This is based on CCF member concerns over the ability of jurisdictions to manage time sensitive tenders for projects in an efficient and effectual manner. In the current economic climate, it is critical that all governments deliver faster procurement and tendering processes, not just for the 15 'mega-projects' recently announced by the Prime Minister, but for all infrastructure projects at all levels. CCF therefore believes there is a greater role for the Commonwealth to play in incentivizing jurisdictions to encourage them to ensure they have sufficiently skilled resources to quickly develop and implement improved procurement processes, and to facilitate accelerated procurement processes.

Furthermore, CCF contends there is an opportunity for industry and government to use the current economic crisis as an opportunity to embark on a new era of cooperation by better utilising capacity in the private sector to speed up the process of releasing projects while also ensuring that the design, engineering, planning and approvals are done correctly.

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[8] https://www.ifminvestors.com/insights/insight-article/building-australia-model

[9] https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Asia%20Pacific/Australias%20infrastructure%20innovation%20imperative/Australias-infrastructure-innovation-imperative-final.pdf

Central to this is achieving a more balanced approach to risk allocation and the development of collaborative contracts. In the context of COVID 19, where there is a need for efficient project design and delivery, CCF believes the use of collaborative contracts needs to feature prominently in any stimulus package.

Creating opportunities for parties to work collaboratively and to identify and manage risks, and to explore opportunities to optimise the project's design and delivery are fundamental to contracts being awarded earlier.

With regard to achieving greater collaboration at the local government level, CCF National encourages the Commonwealth to play an active role in providing a consistent form of contract for all contracts delivered through future infrastructure funding streams and consider how that contract would be administered.

3.6 Supplier Payment Policy

Finally, CCF recommends the creation of a specialised *'Civil Construction Working Group'* comprising representatives from CCF and Government to discuss and develop a *'Supplier Payment Policy'* for all public bodies involved in federally funded civil infrastructure projects.

Industry's viability and that of its workers during the Coronavirus pandemic relies on prompt payment by public procurements agencies and so a nationally consistent policy is required to help ensure prompt payment by all public procurements agencies.

Elements of the policy could include:

- Ensuring all outstanding claims are settled and invoices submitted by suppliers are paid immediately on receipt in order to maintain cash flow in the supply chain and protect jobs.
- By informing suppliers that they will continue to be paid as normal, even if service delivery is disrupted or temporarily suspended)
- By putting in place the most appropriate payment measures to support supplier cash flow such as: forward ordering, payment in advance/prepayment, interim payments and payment on order.
- By reviewing tender requirements and streamlining the tender process to take into account the changing dynamic of how tenders are prepared in the current environment with a number of personnel working from home or in isolation.

4. Conclusion

CCF thanks Treasury for the opportunity to provide this submission to the 2020-2021 Budget and to outline to its practical policy proposals aimed at:

- harnessing the economic capacity of the civil infrastructure sector;
- boosting the economy and support jobs during this worsening economic climate;
- strengthening industry's foundations to put it in a stronger and more sustainable footing.

CCF is committed to continuing its constructive and collaborative working relationship with the Federal Government on behalf of the civil construction industry to minimise the impact of Coronavirus on them and their businesses, and to support the Government's response to the economic impacts of this health crisis and the economic recession.

The measures outlined in this submission will help to ensure the industry and the people it employs are well positioned to manage the economic threats posed by Coronavirus now, but also, to provide the foundations to put the industry in a stronger and more sustainable footing in the future.

CCF commends this pre-budget submission to Federal Treasury for favourable consideration.

Your sincerely

Christopher Melham
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Civil Contractors Federation National

24th August 2020