CIVIL CONTRACTORS FEDERATION

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Media Backgrounder – 9th June 2020

Civil Contractors Federation Five-Point Civil Infrastructure Stimulus Plan

The Civil Contractors Federation National ('CCF') is the peak employer body representing 1700 companies engaged in the civil construction industry in Australia. CCF Members are responsible for the construction and maintenance of Australia's infrastructure, including roads, bridges, pipelines, drainage, ports and utilities.

CCF is urging Federal, State and Territory Infrastructure Ministers to back the Civil Contractor Federation's **Five-Point Civil Infrastructure Stimulus Plan** to boost the economy and support jobs during this worsening economic climate.

With the Australian economy shrinking by 0.3 percent in the March quarter, effectively putting Australia into an economic recession, and the latest Australia Bureau of Statistics figures showing a drop of 4.8% in Engineering Construction work from March 2019 to March 2020, strong, swift and decisive action is needed by all governments to harness the economic capacity of the civil infrastructure sector.

The civil infrastructure sector is ready to lead Australia's economic recovery and support thousands of new jobs**.** But to achieve this, CCF is calling for action on its **Five-Point Civil Infrastructure Stimulus Plan** as a matter of urgency.

These measures are:

Measure 1 - Maximise capacity of the civil construction sector
Measure 2 - Bring forward infrastructure spending
Measure 3 - Disaggregation of large projects
Measure 4 - Debt funding to increase infrastructure investment
Measure 5 - Streamlined Procurement Processes

Measure 1 – Maximising the capacity of the civil construction sector

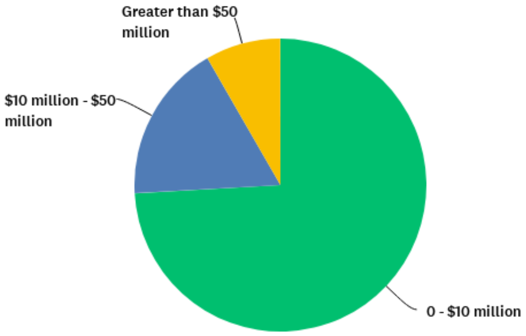
- Unlike many other sectors of the economy, the civil construction sector has not been significantly affected by COVID 19 and has the capacity to take on more civil infrastructure projects and employ thousands more workers to stimulate the Australian economy.

- A recent CCF National member survey found the civil construction sector has significant capacity to tender for additional infrastructure projects and a subsequent need to employ more workers if governments rolled out additional project funding.

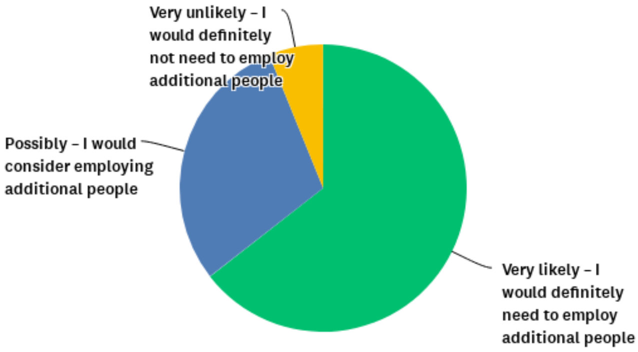
- 92% of respondents advised they would have the capacity to tender for new projects up to $50 million, if governments allocated funds for civil construction works covering: road, rail, bridges, ports, utilities, power, water, telecommunications, and other local civil projects.

- 64% of companies indicated they would need to employ additional workers if they were successful in tendering for additional projects, and a further 29% indicated they would consider employing more workers.

In the event of increased government funding for infrastructure projects which threshold level would your business have capacity to tender for?



What is the likelihood of your business employing additional workers if you were successful in tendering for a new civil infrastructure project/s.

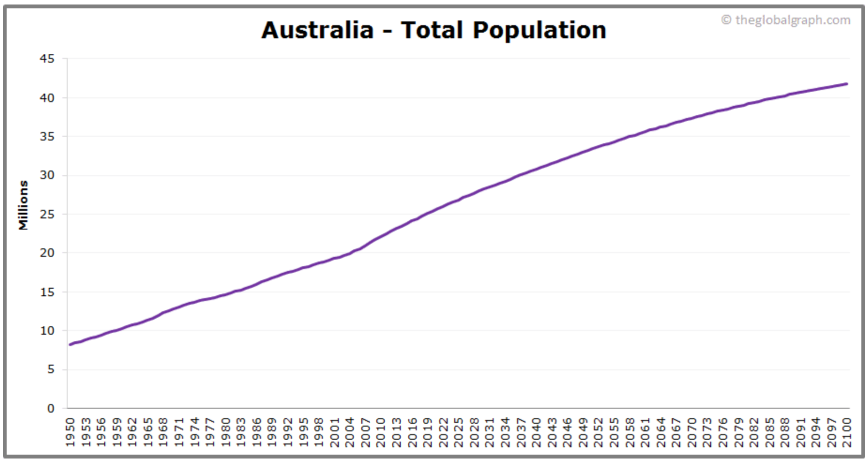


Measure 2 – Bring forward infrastructure spending

- The Government needs to increase the level of infrastructure investment in the immediate term by bringing forward its 10-year $100 billion infrastructure investment fund, as much of this funding is beyond the four-year budget cycle. These funds should be brought forward as a matter of urgency and allocated towards shovel ready projects.

- The Government's recently announced $500 million Local Government Infrastructure Fund is a good start, but it falls well short. More money needs to be injected into this and other civil infrastructure programs across urban, rural, and regional Australia across all civil sectors, including road, rail, bridges, utilities, drainage, and telecommunications.

- Infrastructure Australia's 2019 Infrastructure Audit confirms governments need to build more infrastructure to keep pace with Australia's growing population to address worsening urban congestion. The Audit states that by 2034, Australia's population is projected to grow by 23.7% to reach 31.4 million, adding to infrastructure demand, while existing infrastructure struggles under maintenance backlogs. 77% of our population growth is projected to occur in our four fast-growing cities, and 82% of growth is projected to occur across our eight capital cities.



- Governments also need to invest to meet a significant maintenance backlog across local government areas which is confirmed by the 2018 Local Government National State of the Assets Report which shows $30 billion now is required to renew and replace ageing infrastructure.

- A report by the Global Infrastructure Hub also 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. See graph below.

CUMULATIVE INFRASTRUCTURE INVESTMENT

SDG results only shown where the SDG requirement would not be delivered under the investment need scenario

Billion $US, 2015 prices and exchange rates	Road	Rail	Airports	Ports	Telecoms	Electricity	Water	Total
2016-2040 (Current trends)	437	107	28	109	203	431	228	1,542
2016-2040 (Investment need)	438	172	32	165	213	452	228	1,700
2016-2040 (Gap between IN and CT)	1	65	4	56	10	21	1	158
2016-2030 (SDG - requirement over and above IN)						0	0	

Source, Global Infrastructure Hub, Company Profile, Australia

Measure 3 - Disaggregation of large projects

- Major projects should be disaggregated where possible to encourage participation from tier 2 and tier 3 Contractors (i.e. Australian owned companies, not offshore conglomerates), and that project allocation be spread across all jurisdictions to ensure widespread community benefits are realized from the stimulus spend.

- Infrastructure Australia estimates that every dollar of public infrastructure investment can generate GDP increases that add up to $4 of value over the life of the asset. This multiplier effect is amplified when the infrastructure spend is disaggregated.

- A good example of the benefits of disaggregation occurs in the Inland Rail project. The 1,700km rail line has been separated into 13 separate projects, to be delivered over 10 years. This 'de-bundling' of the project provides greater opportunities for tier 2 and tier 3 contractors to win civil construction contracts thereby leaving the profits and overheads in Australia for Australians.

- A recent [Deloitte report] underlines the economic benefits of investing in smaller projects that can be commenced quickly.

"The continuity of the existing pipeline is essential to Australia's recovery from the 2020 recession. But there are a series of challenges. First, infrastructure is mostly a state responsibility, and COVID-19 is placing additional pressure on already strained state finances. And second, there are concerns about the construction industry's ability to deliver the existing pipeline of infrastructure projects, let alone a larger and more urgent pipeline.

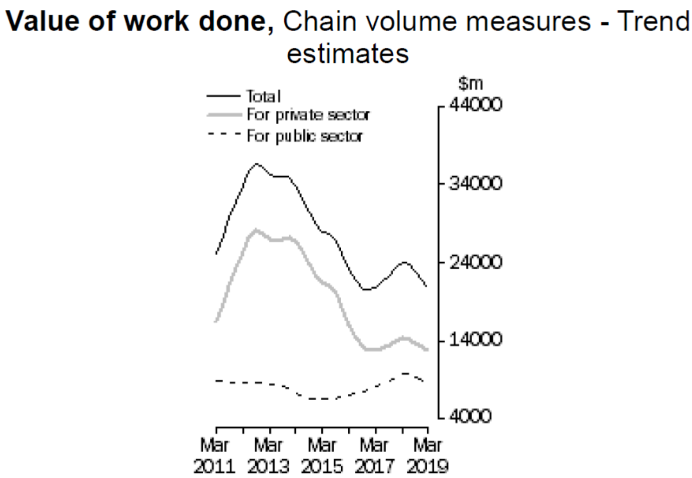
Against this backdrop it will be crucial that spending is well-directed. There will be a temptation for governments to pursue large nation-building projects as a way of stimulating the economy, but the focus should instead be on improvements to existing infrastructure and smaller developments. These types of investment tend to generate the largest relative economic returns, while smaller scale projects are also easier for contractors to commence quickly and to deliver on-time and on-budget."

Measure 4 - Debt funding to increase infrastructure investment

- CCF encourages governments to increase their level of infrastructure investment by using debt funding for productive infrastructure to stimulate the economy both during and after this economic crisis whilst interest rates are at historically low levels.

- A stronger focus on debt funding would help to address an ongoing decline in public sector engineering activity which the Australian Bureau of Statistics estimates has fallen dramatically in recent years. ABS's most recent Engineering Construction Activity Report shows public sector engineering construction totaled $8.17 billion in the March quarter 2019, which represents:

- a fall of 3.5% from December 18 to March 19
- A fall of 15.7% from March 18 to March 19



Source: Engineering Construction Activity Australia, March 2019,

According to the 2017 BIS Oxford Economics Report / Civil Contractors Federation Australian Infrastructure Outlook Report, "the loss in positive 'multiplier' effects from declining construction activity is keeping growth in national domestic demand and Gross National Expenditure (GNE) restrained."

- A greater willingness to undertake debt funding to invest in infrastructure would also provide greater certainty to the private sector with regard to the Government's longer-term infrastructure pipeline. This in turn would boost business confidence and support increased capital investment in plant and equipment necessary to support civil infrastructure projects. Demand for all these goods would support local industries, local jobs and aligns with the strong focus of both the Government and the COVID 19 Coordination Commission to support local manufacturing businesses during this period.

- Further, CCF supports monies from the $60 billion Job Keeper saving to be diverted from social to civil infrastructure investment as a matter of urgency.

- The benefits of debt funding are also shared by the Reserve Bank of Australia, with RBA Governor Philip Lowe quoted as saying:

> *"If the government can build productive capacity by borrowing at low interest rates, it seems like that is a good thing to do. Governments here and around the world should have their top drawers full of really good ideas that are shovel-ready in case growth slows.* Sydney Morning Herald, June 24, 2019

Measure 5 – Streamlining Procurement and Action on Skills

- Procurement agencies should simplify their procurement processes where possible and work more closely with civil construction companies via collaborative contract arrangements. This will allow faster procurement processes and therefore allow stimulus funding to trickle through the economy more quickly. Simplified procurement will also yield productivity gains for Contractors tendering new work, and for Government agencies evaluating tenders.

- In the context of COVID 19 and the current recession, where there is a need for efficient project design and delivery, there is a need for greater collaboration between contractors and their clients. CCF believes the use of collaborative contracts needs to feature prominently in any stimulus package.

- The use of collaborative contracts is conducive to more appropriate risk allocation and to manage time sensitive tenders. Collaborative contracts incorporate features that are specifically designed to overcome the misalignment of commercial incentives associated with conventional fixed price contracts.

- Finally, the Federal Government must act now to include construction skills on the National Skills Needs List to ensure apprentices, VET providers, and employers gain access to funding incentives. Presently they do not feature on the List and therefore are not eligible for funding under the *Australian Apprenticeships Incentives Program (AAIP)* which commences in a little over six months. These civil occupations include bridge, road and tunnel constructors, civil plant operators, pipe layers and line markers.

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