

20 *Western Australian* 20 *Infrastructure Report*

ECONOMIC TRENDS,
PROSPECTS AND
POLICY PRIORITIES



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HIGHLIGHTS

Recent Trends

Further signs of Western Australia’s economic revival emerged during 2018-19, off the back of record levels of resources sector production and rising commodity prices.

At a headline level, ACIL Allen estimates that WA’s Gross State Product (GSP) expanded by two per cent in 2018-19, off the back of the strong export performance in the resources sector. The State’s domestic economy remained a drag on the economy over the year, with State Final Demand (SFD) contracting by 1.1 per cent in 2018-19.

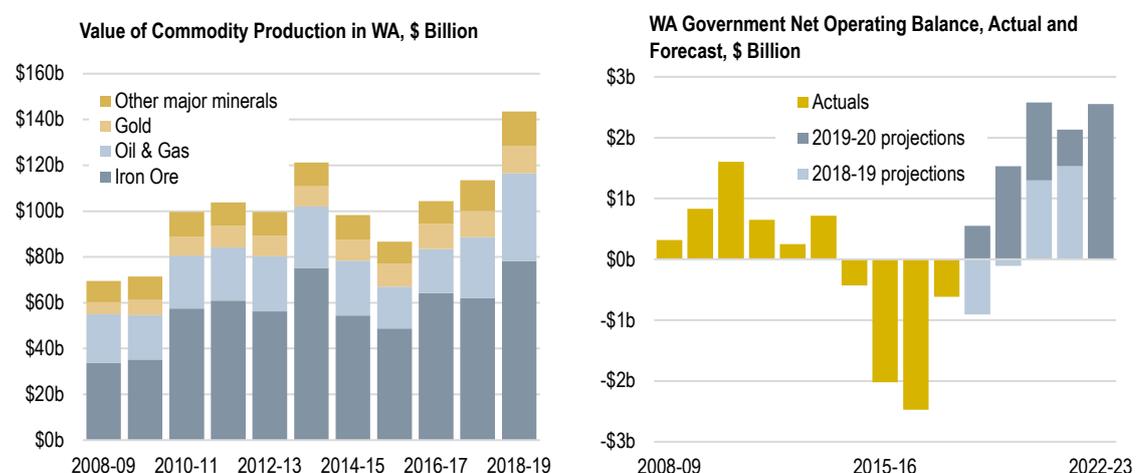
The disconnect between the external and domestic economies reflects the broader labour market conditions that exist in Western Australia – where both short term cyclical factors associated with the decline in investment activity and longer term structural influences are shaping the future of work.

Combined, these forces have meant that the economic recovery in Western Australia has been more graduated and generated fewer jobs relative to other periods in the State’s history. While labour market conditions are still fundamentally sound, there is still significant underemployment in the State, which has had the effect of keep real wages growth low.

More limited job opportunities have also been the catalyst for the net migration out of Western Australia over the past few years, with a total of 8,000 residents departing for other States over the 12 months and over 45,600 over the past five years. This net outflow of a productive potential workforce has not only had implications for businesses searching for talent, but it has also reduced levels of current and future consumption and investment in the State.

Global growth has slowed over the past 12 months across most major advanced economies, with global GDP expected to expand by three per cent in 2019, the slowest rate of growth since the Global Financial Crisis in 2009. However, WA has been immune to these broader trends given high commodity prices, which is helping to stimulate expansion projects and further exploration across the State’s resources sector.

FIGURE ES.1 RECENT TRENDS SUMMARY CHARTS



SOURCE: ACIL ALLEN CONSULTING

Western Australia's resources-led growth engine has not only boosted the State's external position, but it has also provided a significant financial dividend to the Commonwealth and State Governments in the form of taxation and royalty payments. This will likely help both the Commonwealth and State Governments realise a return to surplus earlier than originally forecast. The WA Government is now projecting a \$1 billion operating surplus in 2019-20, while the Commonwealth is now projecting a \$8.5 billion operating surplus in 2018-19.

The return to surplus for both the Commonwealth and State Governments will provide an ability to arrest the rising levels of net debt, and importantly provide scope to progress important economic and social infrastructure priorities.

Prospects for the Future

The preconditions for a return to trend growth in the WA economy have become more evident over the past year. The resources sector continues to leverage from its most recent investments, which is realising significant export income for the State, while high commodity prices are also acting as a catalyst for the next wave of major investments in the sector.

At the same time, domestic conditions continue to improve, and the stronger financial position of the Commonwealth and State Governments provides the opportunity to progress important economic and social infrastructure priorities. Infrastructure investment by governments, if well targeted, has the potential to provide a significant stimulus in the short term through increased construction activity, but also over the longer term by driving productivity improvements throughout the economy.

The improved investment outlook – both private and public – is reflected in the size of the current and future projects that exist in WA. Based on data sourced from the Business News Major Projects List and the Deloitte Access Economics Investment Monitor, it is estimated that there is approximately \$160 billion in major projects that are either under construction or under active consideration in WA in 2019.

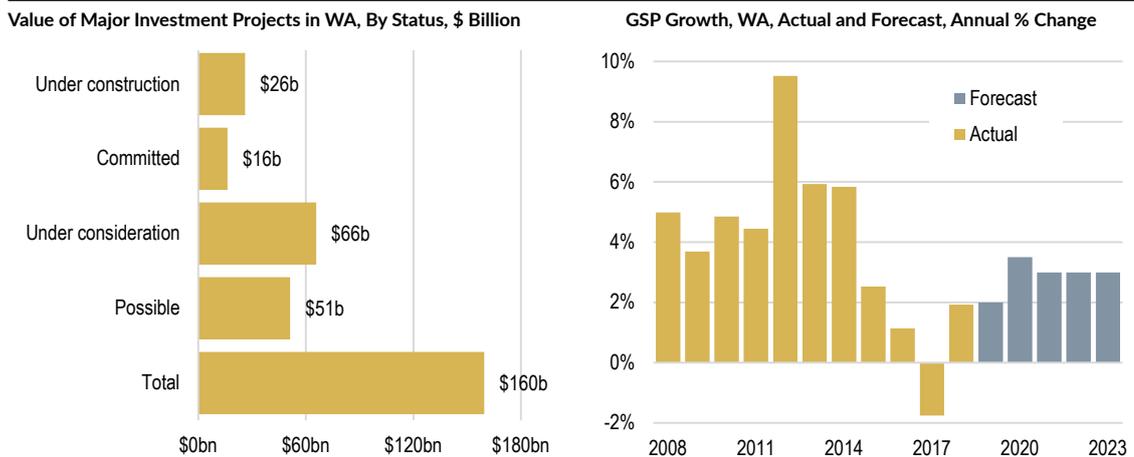
The scale and breadth of these investment opportunities highlights that there is potential upside to WA's economic outlook beyond official estimates presented in the 2019-20 State Budget. To put the scale of future investment in WA into perspective, the total value of major projects not currently under construction is almost four times the total level of business investment undertaken in Western Australia last financial year, and almost twice the record level of business investment recorded at the peak of the resources investment boom in 2012-13.

ACIL Allen expects that Western Australia's GSP will expand by 3.1 per cent per annum between 2019-20 and 2022-23, with both iron ore and LNG sectors likely to remain the State's growth engines over the outlook period. Double digit growth rates are forecast in these sectors, fuelled by the combination of both increased production and the new expansion projects.

For the construction industry, the major projects on the horizon across all sectors of the economy will translate to a significant pipeline of activity over the medium term, with the Australian Construction Industry Forecasting Council estimating total construction activity in WA will increase by an average of 6.2 per cent per annum over the next four years to \$39.1 billion by 2022-23. The growth in construction activity is expected to be driven by engineering construction activity, which is forecast to grow by 7.7 per cent per annum over this period, accounting for almost two-thirds of all construction activity.

Importantly, the rebalancing of the State's growth profile towards investment activity will provide critical support for key consumer sectors of the economy, principally the retail, hospitality and housing sectors which have struggled in an environment where consumers have been unwilling or unable to spend. ACIL Allen estimates that the broader services sector will grow by 3.6 per cent over the forecast period, after contracting over the four years between 2015-16 and 2018-19.

FIGURE ES.2 WA ECONOMIC AND INFRASTRUCTURE OUTLOOK



SOURCE: ACIL ALLEN CONSULTING

Policy priorities to support growth through a sustainable construction sector

Since coming to power in March 2017, the McGowan Government has been committed to repairing the State's finances and developing policies that support jobs and growth in the WA economy and across its regions.

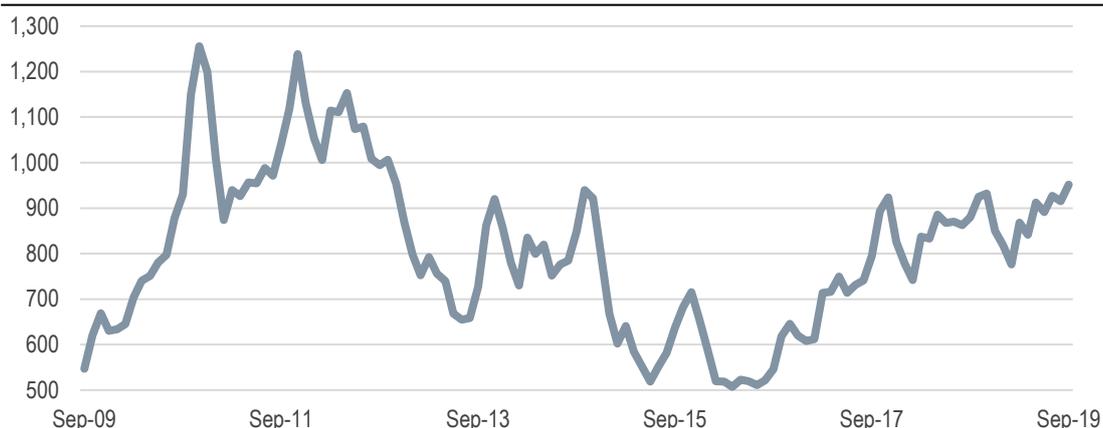
With the State now in its strongest fiscal position since coming to power, and armed with a projected budget surplus of \$1 billion in 2019-20, there is now the opportunity to implement a long term infrastructure plan for the State through the creation of Infrastructure WA. In this context, the three policy priorities presented in this report are targeted at ensuring the construction sector has the capacity, capability and opportunities to grow their pipeline of activity and develop the enabling infrastructure that will support the growth and development of the State.

Addressing the human capital needs of industry

It is important that the State Government align the State's human capital policy settings to the needs of WA industry given that the medium-term outlook is increasingly more prospective. There are emerging signs of a substantial uptick in demand for infrastructure-related skills in Western Australia, with vacancies for skilled construction workers at their highest levels since November 2012, yet the number of construction industry apprentices and trainees in training in the State has fallen to historic lows, as has the levels of interstate and international migration. The State Government's State Priority Occupation List (SPOL) was pared back significantly in mid-2017, and currently does not include any of the engineering construction skilled occupations, limiting the ability of international migration to address short-term skills needs where the supply of local labour is found to be inadequate for industry's needs.

Human capital is a constant policy priority for the State. However, it is important for the State Government to focus its efforts on the human capital needs of the engineering construction sector, particularly as the sector is a key enabler for the State's economy at large given its role in building new infrastructure.

FIGURE ES.3 ENGINEERING CONSTRUCTION* INDUSTRY SKILLED VACANCIES, THREE MONTH MOVING AVERAGE, WESTERN AUSTRALIA



SOURCE: DEPARTMENT OF EMPLOYMENT, ACIL ALLEN CONSULTING

*VACANCIES ARE FOR TEN OCCUPATIONS IN THE DEPARTMENT OF EMPLOYMENT SKILLED VACANCIES DATA SET, INCLUDING EARTHMOVING PLANT OPERATORS, TRUCK DRIVERS, BUILDING AND PLUMBING LABOURERS, CONCRETTERS, STRUCTURAL STEEL CONSTRUCTION WORKERS AND OTHER STATIONARY PLANT OPERATORS (AMONG OTHERS)

Ensuring the State's approach to procurement is fit for purpose

The construction industry believes a fresh approach is needed to State Government infrastructure project procurement and delivery. Over time, agencies in Western Australia (and other Australian states) have tended to move away from collaborative, risk-sharing approaches to the procurement and delivery of major infrastructure works.

Over the past two years, challenging economic conditions in the State have led to a reduction in the number of active players in the construction and infrastructure sector. The number of construction related businesses with an annual turnover of more than \$5 million has fallen from 632 in 2015-16 to 539 in 2017-18 – a reduction of 15 per cent in just two years. This has in turn led to a reduction in the number of bidders available to tender for government works.

The NSW Government recently recognised the importance of collaboration and engagement with construction contractors, having experienced its own construction and infrastructure boom over the past five years. The NSW Government signalled its commitment to fostering a positive working relationship with contractors through the release of an action plan, the centrepiece of which was an objective to be a “best in class client” for the construction industry and its clients.

The Western Australian Government should consider a similar process of deep engagement with construction contractors, as a competitive and sustainable construction sector will be critical to ensuring the long term objectives in the proposed State Infrastructure Strategy are met.

Unlocking the full scope of the State's capital works program

The State Government has historically underspent on its capital works budget each year. Over the past five years, the State Government has underspent on its budgeted capital works program by an average of one billion dollars each year, for a cumulative underspend of approximately \$5 billion.

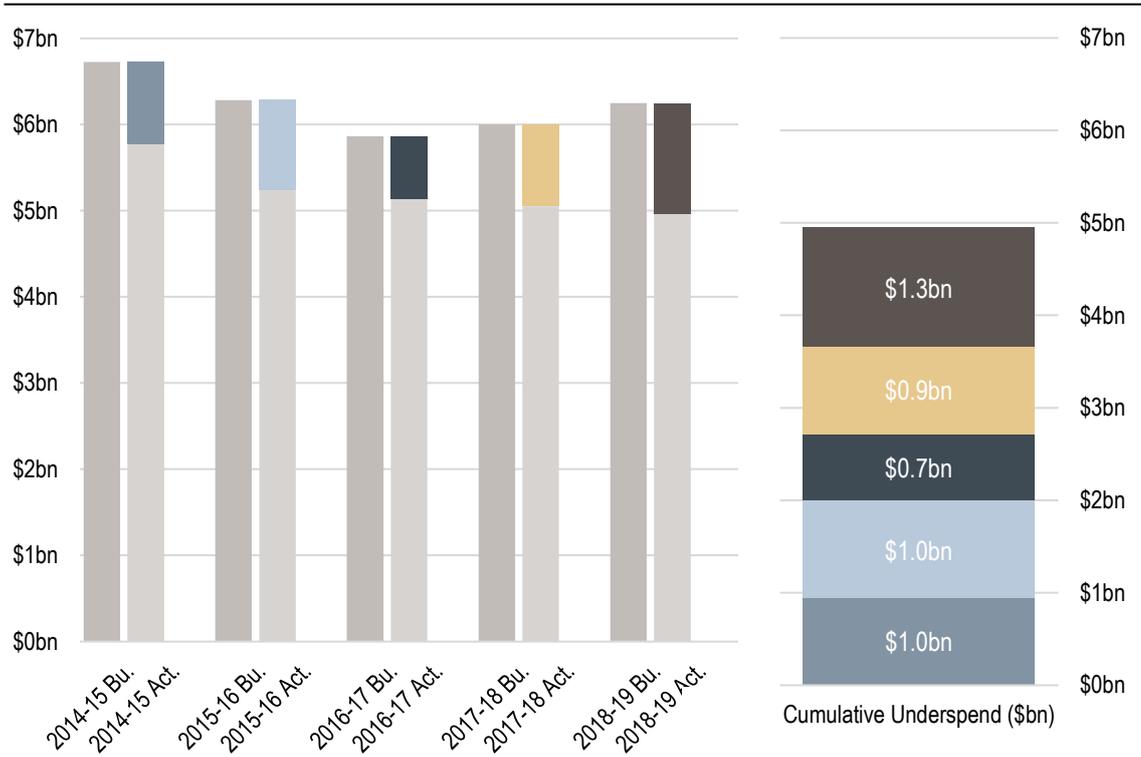
While there are likely to be a range of factors which influence the actual volume of infrastructure spending versus planned infrastructure spending, it is important for the State Government to ensure those things which are within its control are managed effectively, to ensure it meets its capital investment ambitions.

Ultimately, this level of underspend can have a significant impact on the construction sector, particularly in periods where construction activity is weak. The sector looks to the State Government's budget as a guide for the level of work it can reasonably expect to be available over the forward estimates period. If the State's underspend continues at the current rate, the actual capital works spend projected in the 2019-20

State Budget will be \$3.6 billion lower over the forward estimates – equivalent to the construction activity associated with three Perth Stadiums and the associated transport infrastructure.

This highlights the important role that the newly formed Infrastructure WA, and the development of a 20-year State Infrastructure Strategy, must play in guiding the medium-term infrastructure priorities and their delivery for the benefit of the State.

FIGURE ES.4 TOTAL PUBLIC SECTOR PURCHASE OF NON-FINANCIAL ASSETS (CAPITAL INVESTMENT), \$BN PER ANNUM, BUDGET VS ACTUAL

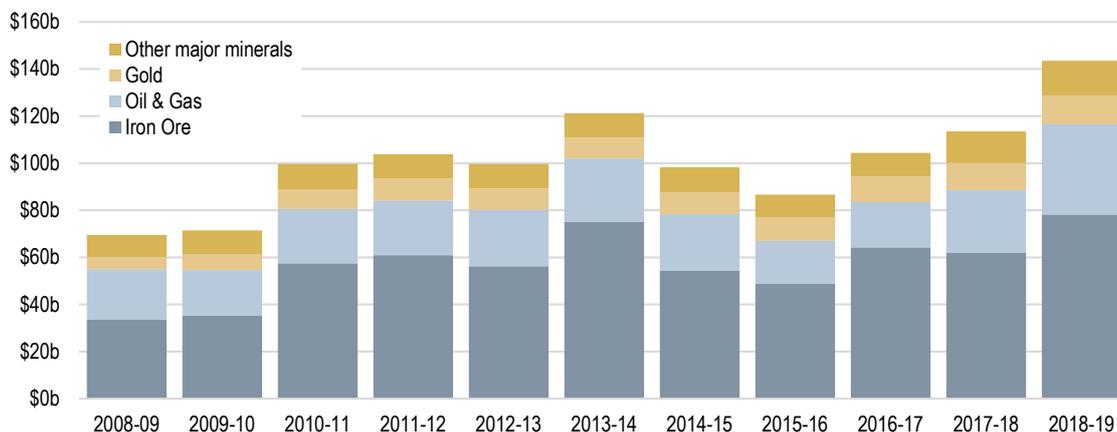


SOURCE: ACIL ALLEN CONSULTING

Further signs of **Western Australia's economic revival emerged during 2018-19, off the back of record levels of resources sector production and rising commodity prices.** The State's resurgent resources sector contrasted sharply with a local economy that continued to feel the effects of falling business investment over the year.

The value of commodity production in Western Australia reached a record \$143 billion in 2018-19, increasing by over two-thirds in just three years. Driving this growth continued to be the State's largest export, iron ore, with production jumping by 60 per cent to \$78.2 billion over the three years to 2018-19. Also significant was the boost in oil and gas production, which more than doubled to \$38.4 billion (Figure 1.1).

FIGURE 1.1 VALUE OF COMMODITY PRODUCTION IN WESTERN AUSTRALIA, \$ BILLION



SOURCE: ACIL ALLEN CONSULTING, DEPARTMENT OF MINES, INDUSTRY REGULATION AND SAFETY

At a headline level, **WA's GSP expanded by two per cent in 2018-19, off the back of the strong export performance in the resources sector.** The State's domestic economy remained a drag on the economy over the year, with **State Final Demand (SFD) contracting by 1.1 per cent in 2018-19** – the fifth time over the past six years that the domestic economy contracted in annual terms (see Figure 1.2).

WA's economy continues to remain out of sync with the trends in other states, and therefore nationally. During 2018-19, Australia's Gross Domestic Product (GDP) increased by a tick under two per cent, due largely to the contribution from household consumption expenditure and exports, offsetting falls in business and housing investment. By state, growth was supported by the domestic economies of Victoria (annual increase in SFD of 3.5 per cent) and New South Wales (2.1 per cent) over the year.

WA's domestic economy was again driven down by the impact of further falls in business investment activity over the year (down a further by 8.7 per cent over the year) and a household sector that continued to shy away from the housing market (housing investment fell 5.2 per cent) and consumption expenditure (up just 0.7 per cent).

The disconnect between the external and domestic economies reflects the broader labour market conditions that exist in Western Australia – where both **short term cyclical factors and longer term structural influences are shaping the future of work.**

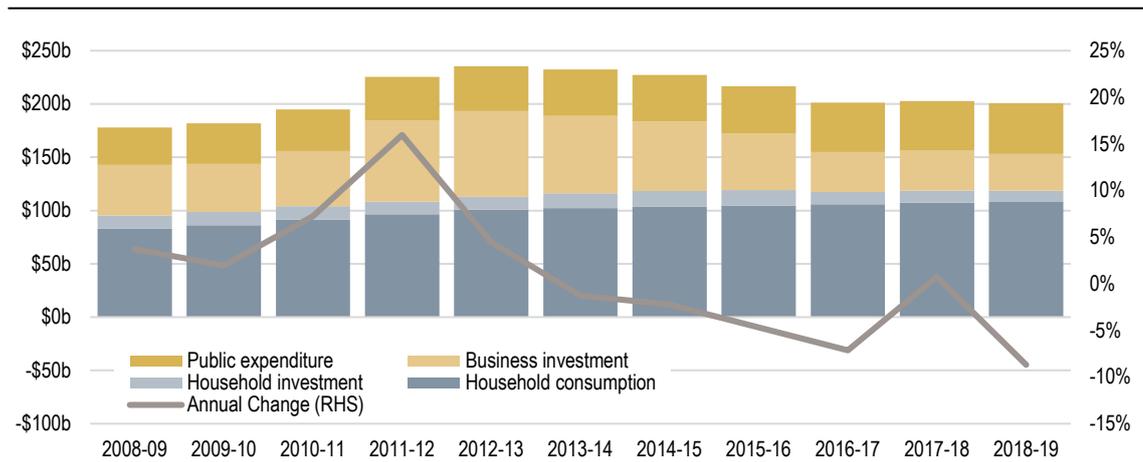
From a cyclical perspective, Western Australia's investment cycle has been a significant driver of demand

for labour – which has historically seen labour market conditions tightening when investment activity is high, and slack in the market evident during times when investment activity is low.

At the same time, structural influences have also emerged as a pervasive influence on the labour market, with **technology and innovation changing the nature of work across all industries**.

Combined, **these forces have meant that the economic recovery in Western Australia has been more graduated and generated fewer jobs relative to other periods in the State's history.**

FIGURE 1.2 COMPONENTS OF (\$ BILLION) AND ANNUAL CHANGE (PERCENTAGE) IN WA STATE FINAL DEMAND, FOUR QUARTER SUM



SOURCE: ACIL ALLEN CONSULTING, ABS CAT. 5206.0

However, **labour market conditions are still fundamentally sound**, highlighted by the record number of Western Australians employed in 2019, and the rate of job creation has allowed for a steady fall in the unemployment rate to a two-year low of 5.7 per cent in September 2019 (See Figure 1.3). These trends aside, there still remains **excess capacity in the labour market with an estimated 82,000 persons unemployed and 139,900 persons underemployed¹** in WA as at September 2019.

By contrast, the unemployment rate nationally was 5.3 per cent in September 2019, with the rates of unemployment lowest in NSW (4.5 per cent) and Victoria (4.8 per cent). Lower rates of unemployment in these states reflect a more positive employment picture, which has seen some 110,000 jobs created in NSW and 103,000 jobs in Victoria created over the 12 months to September. In WA, there were just 12,500 jobs created over the same period of time.

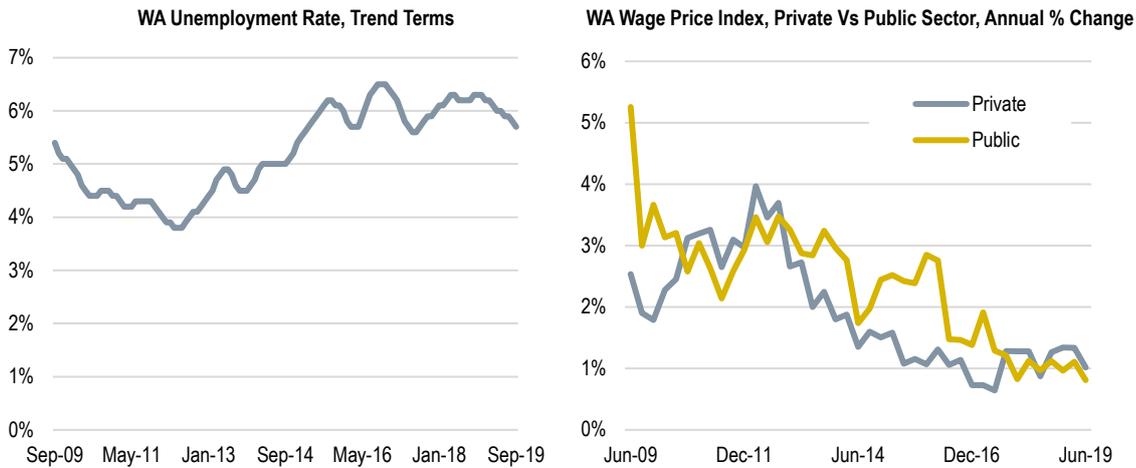
The **combination of relatively weak jobs growth and higher levels of underemployment have ensured that wages growth has remained weak**, with WA's Wage Price Index (WPI) growing in annual terms by around one per cent per annum over the past three years – well below the rates of growth in inflation (see Figure 1.3).

Weak wages growth has been a challenge for policy makers nationally for a number of years now. This has seen policy measures adopted to increase the purchasing power of households, such as through cuts to personal income tax by the Commonwealth Government and further cuts to official interest rates by the Reserve Bank of Australia.

While these measures will provide some stimulus to the economy, **household spending patterns remain strongly linked to perceptions around personal job security**, so in an environment where the job opportunities are more limited, this has the effect of moderating consumption patterns and encouraging greater levels of savings.

1. Underemployment is defined as a situation where an employee desires, and is available for, additional working hours.

FIGURE 1.3 WA LABOUR MARKET INDICATORS, UNEMPLOYMENT RATE, WAGE PRICE INDEX (ANNUAL % CHANGE)

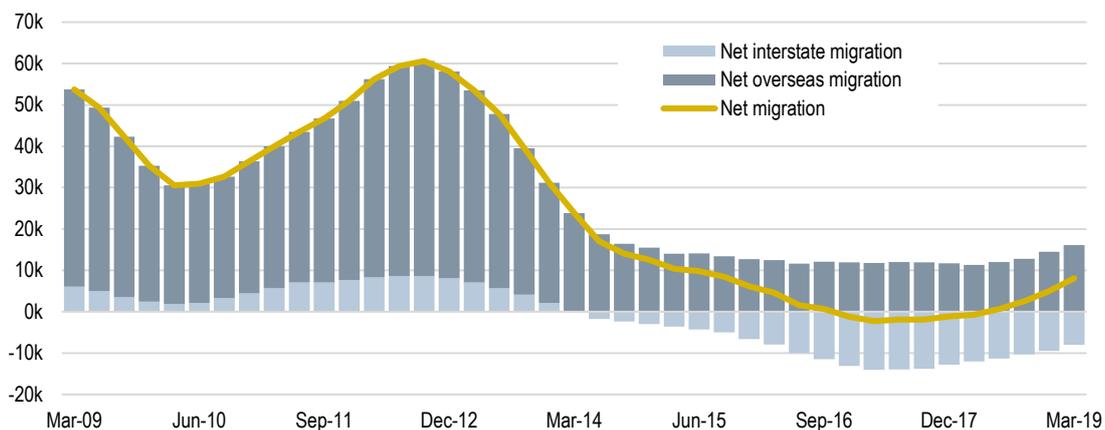


SOURCE: ACIL ALLEN CONSULTING, ABS CAT.6202.0

More limited job opportunities have also been the catalyst for the net migration out of Western Australia over the past few years. A total of 8,000 residents left Western Australia over the 12 months to March 2019, with the **net outflow of people from WA totalling 45,600 over the past five years** (see Figure 1.4). This net outflow of a productive potential workforce has not only had implications for businesses searching for talent, but it has also reduced levels of current and future consumption and investment in the State.

Fortunately, the numbers of overseas migrants has increased over the past year, offsetting the negative impact of high levels of interstate migration.

FIGURE 1.4 NET MIGRATION IN WA, ANNUAL MOVEMENT, 000S



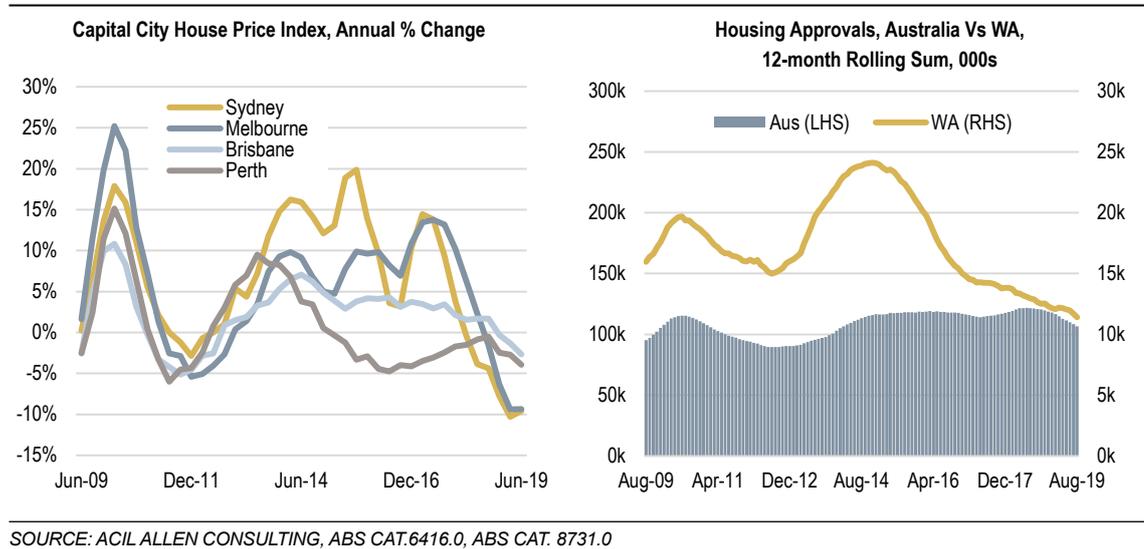
SOURCE: ACIL ALLEN CONSULTING, ABS CAT. 3101.0

Both business and consumer uncertainty also reflect concerns regarding the health of the Australian economy and the global economy more broadly. Nationally, confidence continues to be weighed down by a weaker housing market, which has to date been unaffected by record low interest rates.

In Sydney and Melbourne, house prices have both contracted by nearly 10 per cent during 2018-19, however this followed strong gains in the previous five years in these markets. While house prices fell by less in Perth during 2018-19 (by 2.7 per cent), falling house prices has been a common feature for a number of years following the end of the resources investment boom (see Figure 1.5).

In this context, and in an environment where there has been a net migration out of Western Australia, it is not surprising that housing investment has been weak. The numbers of building approvals – an important lead indicator of housing activity – have been falling year on year in WA over the past five years, with **just 15,743 approvals in 2018-19, which is the lowest number since the beginning of the century** (Figure 1.5).

FIGURE 1.5 AUSTRALIAN HOUSING MARKET INDICATORS



SOURCE: ACIL ALLEN CONSULTING, ABS CAT.6416.0, ABS CAT. 8731.0

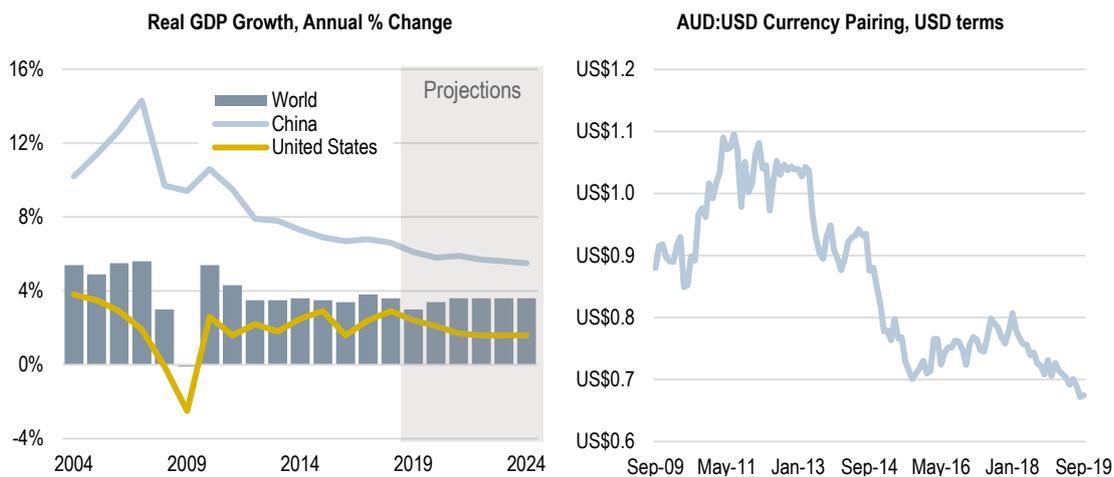
Globally, downside risks have emerged over the course of the year in the context of a number of geopolitical tensions, most notably the ongoing trade dispute between China (our major trading partner) and the United States (our closest ally and biggest foreign investor), but also the challenges associated with Brexit, and closer to home the ongoing turmoil in Hong Kong.

Global growth has slowed over the past 12 months across most major advanced economies, with the OECD and IMF revising down their outlook for global growth over the next couple of years. The IMF is now projecting that **global GDP will expand by three per cent in 2019, the slowest rate of growth since the Global Financial Crisis in 2009.**

The slowdown in global GDP will be driven by the growth outlook of the two largest economies, with US GDP growth expected to ease to 2.4 per cent, and Chinese GDP expected to reach a fresh low of 6.1 per cent in 2019. **China’s slowdown was confirmed by the release of its September quarter accounts, which showed that its economy grew by a three-decade low of six per cent over the year to September, as the impact of the trade war with the US hit factory production.**

These developments – both economic and geopolitical – have created nervousness in global markets, which for Australia has seen the **value of its currency depreciate to fresh lows of \$0.67 in August and September 2019** (see Figure 1.6).

FIGURE 1.6 GLOBAL MARKET INDICATORS



SOURCE: ACIL ALLEN CONSULTING, RBA, IMF

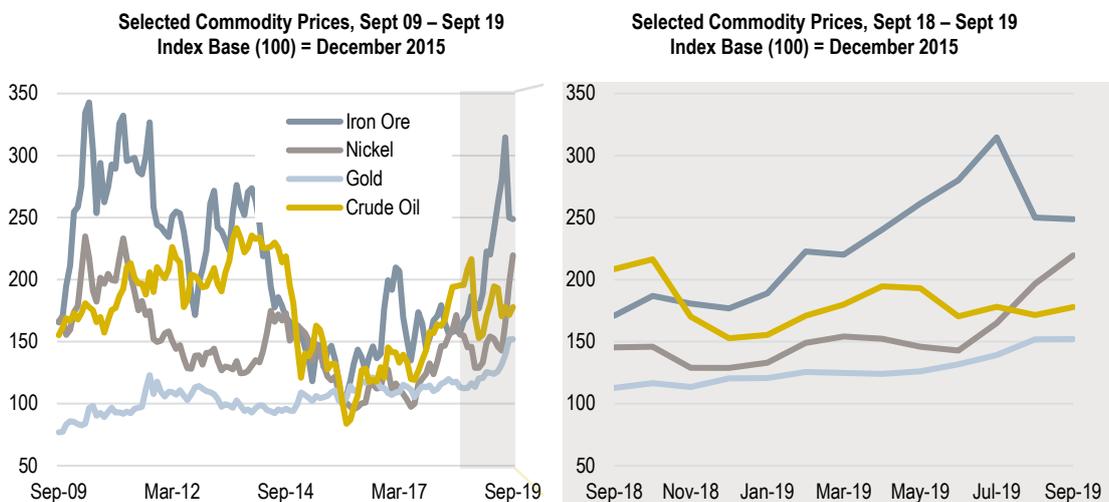
To date, **these developments have not depressed demand for Western Australia's key commodities**, which have risen sharply over the past three years. Strong demand from Chinese steel mills, coupled with the supply disruptions following the Brazilian dam tragedy, have driven **iron ore** prices sharply higher – from a low of A\$55.43 per DMT in December 2015, to a high of A\$174.41 per DMT in July 2019. Since then, iron ore prices have moderated to A\$137.92 per DMT in September 2019 as Chinese steel mills shifted their preferences to local mines amidst higher prices and the US-China trade war begun to weigh on the output of China's manufacturing sector.

Oil prices have also risen sharply from their December 2015 low, rising by 78 per cent to A\$88.96 per barrel by September 2019, boosted by cuts to supply from OPEC members and Middle East tensions.

As a primary input into the battery manufacturing process, demand for **nickel** has seen prices explode recently. Nickel prices are currently 120 per cent higher than their 2015 lows, reaching A\$26,162 per tonne in September 2019. Much of this growth has been recently, with the nickel price rising 54 per cent over the three months to September (from A\$17,031 per tonne in June 2019).

Geopolitical uncertainty has meant **gold** has remained a safe haven asset for investors, with the price of gold increasing 35 per cent over the past 12 months to A\$2,238 per ounce in September 2019.

FIGURE 1.7 INDEX OF KEY WESTERN AUSTRALIAN COMMODITY PRICES, AUD TERMS

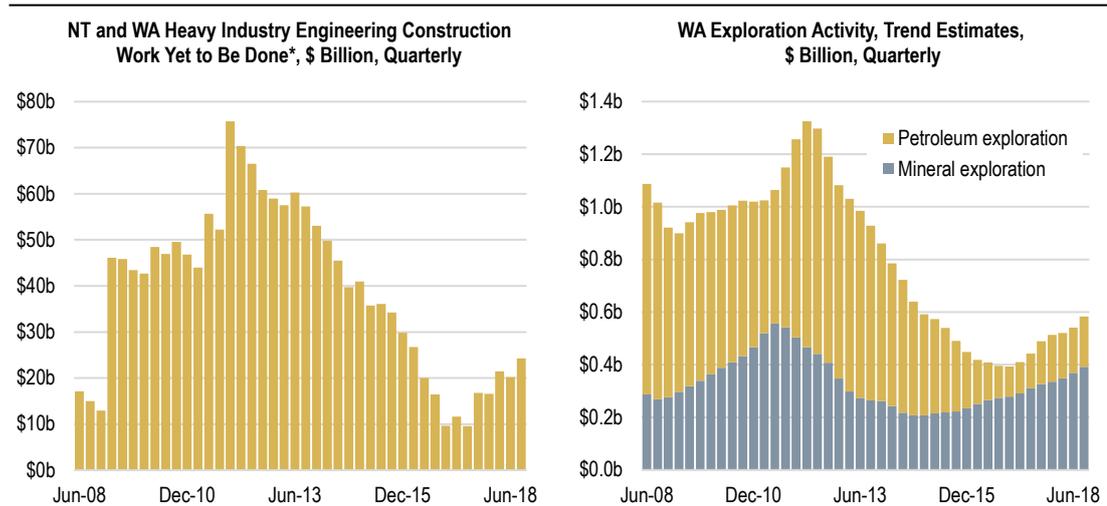


SOURCE: ACIL ALLEN CONSULTING, PLATTS METALS WEEK, RBA, THOMSON REUTERS, WORLD BANK

Higher commodity prices have helped stimulate activity across the State’s resources sector, with many companies committing to major backfill projects, or progressing new greenfield opportunities. This is reflected in the heavy engineering construction work yet to be done, which has increased by 154 per cent since March 2018 to \$24.3 billion (see Figure 1.8).

Exploration activity across the sector has also picked up, most noticeably in minerals exploration but also in oil and gas exploration. After bottoming out in 2015, expenditure on mineral exploration almost doubled to \$392 million by June 2019. Similarly, expenditure on petroleum exploration has increased by two thirds from its low in September 2017 to \$192 million by June 2019 (see Figure 1.8).

FIGURE 1.8 RESOURCES SECTOR FUTURE ACTIVITY INDICATORS

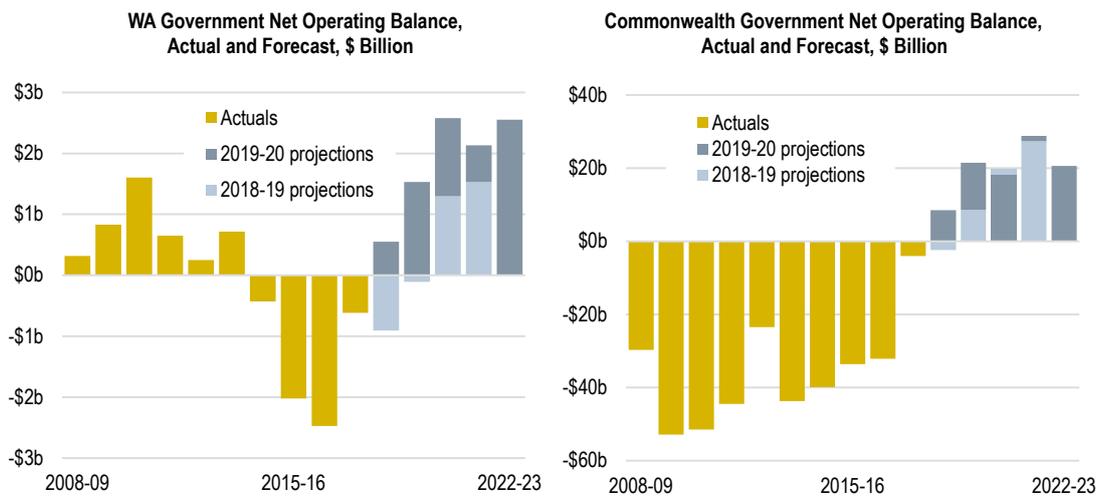


SOURCE: ACIL ALLEN CONSULTING, ABS CAT. 8762.0, ABS CAT. 8412.0. NOTE: NT AND WA VALUES HAVE BEEN ESTIMATED USING NATIONAL VALUES AND VALUES FROM NWS, VIC, QLD, SA, TAS AND ACT.

Western Australia’s resources-led growth engine has not only boosted the State’s external position, but it has also provided a significant **financial dividend to the Commonwealth and State Governments** in the form of taxation and royalty payments. This will likely help both the Commonwealth and State Governments realise a return to surplus earlier than originally forecast.

The WA Government is now projecting a \$1 billion operating surplus in 2019-20, while the Commonwealth now projecting a \$8.5 billion operating surplus in 2018-19 – with both predicting strong operating surpluses over the forward estimates (Figure 1.9).

FIGURE 1.9 COMMONWEALTH AND WA GOVERNMENT OPERATING POSITIONS, 2008-09 TO 2022-23, \$ BILLION

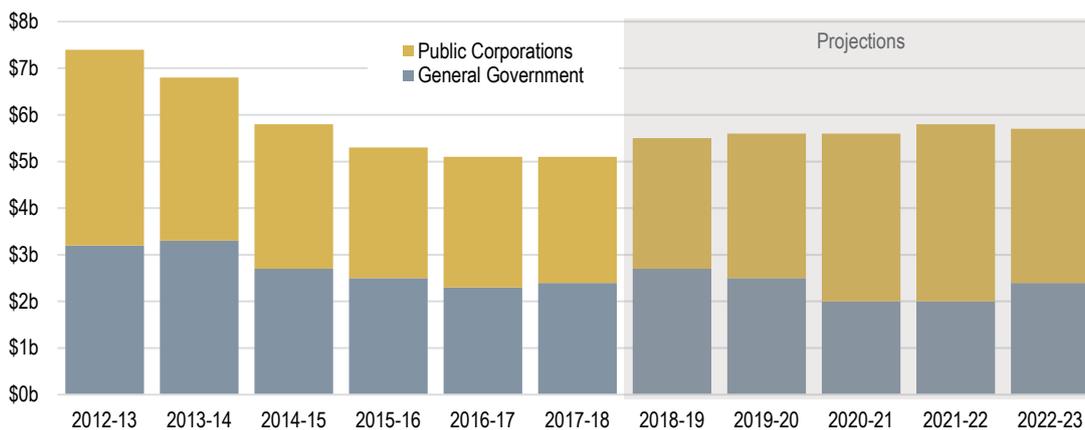


SOURCE: ACIL ALLEN CONSULTING, CONSECUTIVE STATE AND COMMONWEALTH BUDGET PAPERS

The return to surplus for both the Commonwealth and State Governments will provide an ability to arrest the rising levels of net debt, and importantly provide **scope to progress important economic and social infrastructure priorities**. If well targeted, the provision of economic and social infrastructure is one of the most direct and effective means for governments to stimulate the economy.

For the WA Government, it is expecting to progressively increase its asset investment program, which is expected to peak at \$5.8 billion in 2021-22. Reflecting the WA Government’s priorities, the composition of this investment is expected to shift away from general government asset expenditure (following the completion of key city projects such as Perth Stadium and Elizabeth Quay) and instead be targeted at the State’s Public Corporations, including its signature METRONET project election commitment (Figure 1.10).

FIGURE 1.10 WA GOVERNMENT ASSET INVESTMENT PROGRAM



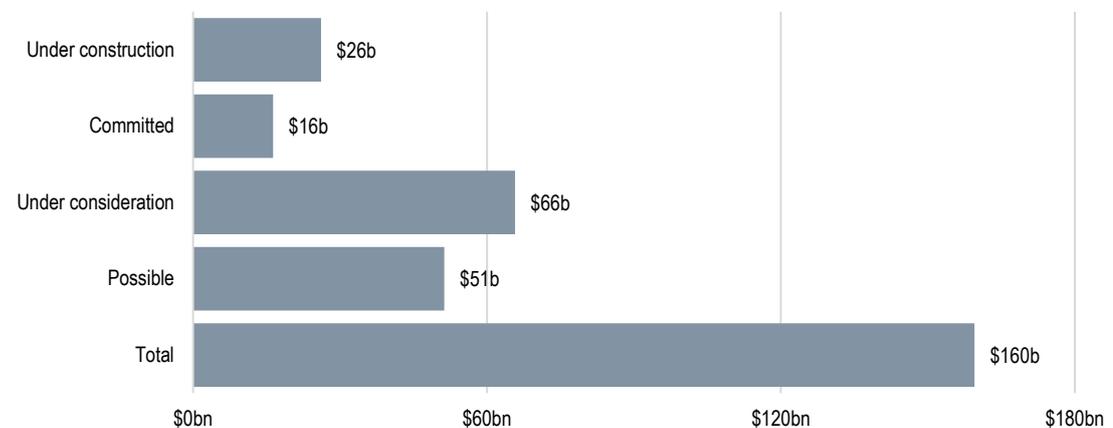
SOURCE: ACIL ALLEN CONSULTING, CONSECUTIVE STATE BUDGET PAPERS

The **preconditions for a return to trend growth in the WA economy have become more evident over the past year**. The resources sector continues to leverage from its most recent investments, which is realising significant export income for the State, while high commodity prices are also acting as a catalyst for the next wave of major investments in the sector. At the same time, domestic conditions continue to improve, and the stronger financial position of the Commonwealth and State Governments provides the opportunity to progress important economic and social infrastructure priorities. **Infrastructure investment by governments, if well targeted, has the potential to provide a significant stimulus in the short term through increased construction activity, but also over the longer term by driving productivity improvements throughout the economy.**

The improved investment outlook – both private and public – is reflected in the size of the current and future projects that exist in WA. Based on data sourced from the Business News Major Projects List and the Deloitte Access Economics Investment Monitor², it is **estimated that there is approximately \$160 billion in major projects that are either under construction or under active consideration in Western Australia in 2019** (see Figure 2.1).

Of this total, approximately \$26 billion in major projects are currently in various phases of construction, with a further \$16 billion likely to commence construction in the near future. The value of projects that are at an advanced stage of consideration across WA is estimated to total a further \$66 billion, with the remaining \$51 billion in projects considered longer term propositions for the State.

FIGURE 2.1 MAJOR PROJECTS BY STATUS IN WA, \$ BILLION, JUNE 2019

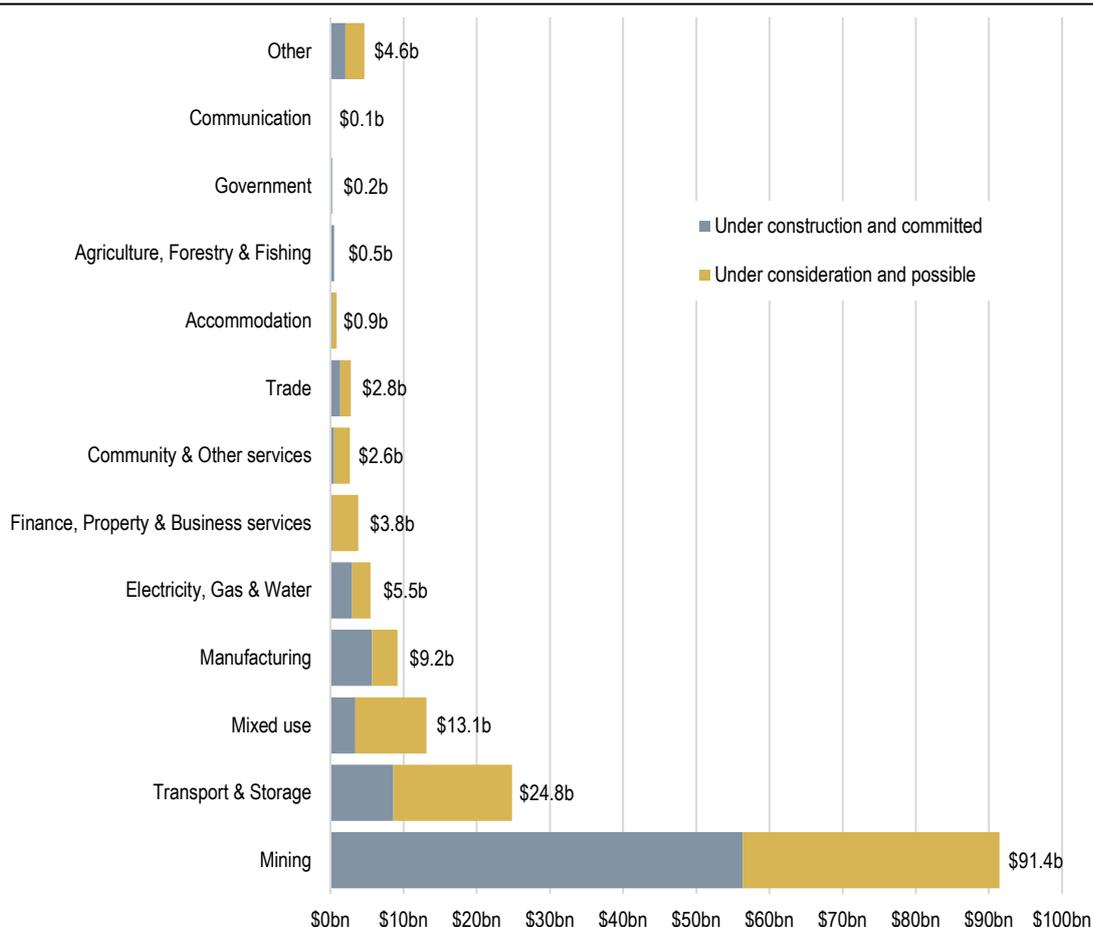


SOURCE: DELOITTE ACCESS ECONOMICS, BUSINESS NEWS, ACIL ALLEN CONSULTING

Not surprisingly, the **resources sector remains highly prospective, with over \$91 billion of major projects in the pipeline across the State**. Some \$46 billion of this pipeline is tied up in three major oil and gas projects, the Woodside-operated Browse and Scarborough LNG projects, and the construction of a fourth LNG train on Barrow Island for the Chevron-operated Gorgon LNG project.

2. Deloitte Access Economics, Investment Monitor, June 2019.

FIGURE 2.2 MAJOR PROJECTS BY STATUS AND SECTOR IN WA, \$ BILLION, JUNE 2019



SOURCE: ACIL ALLEN CONSULTING, DELOITTE ACCESS ECONOMICS

The remaining \$45 billion is largely in relation to minerals projects, with the State's iron ore industry dominating the list. FMG has committed to the \$3.6 billion Iron Bridge iron ore project and has a further two iron ore projects which are costed at \$5.7 billion under consideration. Rio Tinto has three projects that are already committed and one that is under consideration (for a total of \$5.7 billion), while BHP has the \$4.6 billion South Flank backfill project under construction.

Outside of the resources sector, **significant investment is earmarked across the transport and storage sector**. Of the \$24.8 billion worth of projects in the pipeline in this sector, some \$19.8 billion is tied to government related infrastructure projects, including the early stage planning for a proposed \$7 billion deep water port near Cape Lambert and \$5.8 billion that has been tied to the METRONET project, of which \$4.1 billion has already been committed by the Government.

There is also \$3.1 billion under consideration for road related construction projects, including upgrades to Tonkin Highway (\$1.2 billion) and the Bunbury Outer Ring Road (\$560 million), and a range of 'mixed use' construction projects under consideration across the State to the value of \$13.1 billion, including: the development of Belmont Park (\$3.8 billion), World Trade Centres in Perth (\$1.8 billion); Perth Waterbank (\$1.3 billion); Karrinyup Shopping Centre (\$600 million); and Chevron's Headquarters (\$360 million).

The manufacturing industry has \$7.4 billion worth of projects under consideration, headlined by the Perdaman Urea Plant and Burrup Methanol Plant, as well as two lithium processing facilities in construction (the \$1 billion Albemarle Kimberton Park and \$700 million for Stage 1 and 2 of Tianqi's processing plant), and the possible expansions to Alcoa's Wagerup facility (\$1.8 billion).

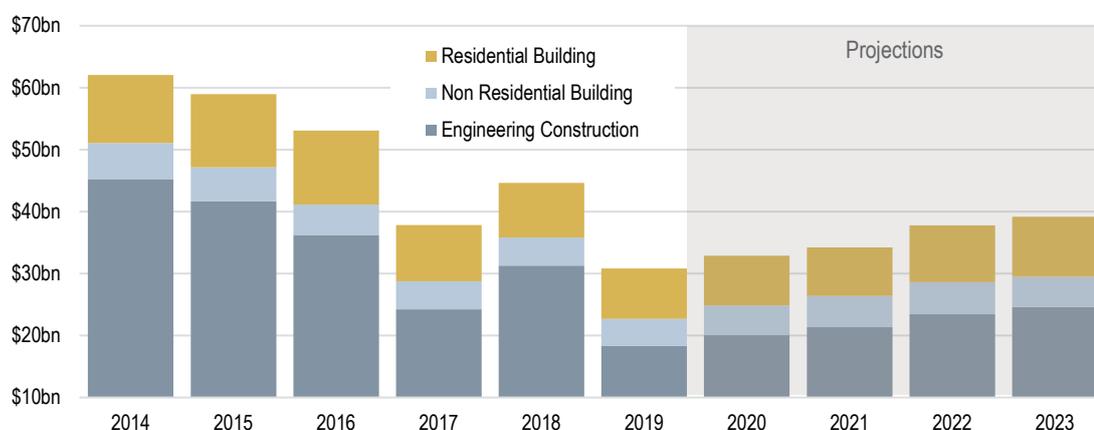
Also of note, the State Government is actively pursuing a contract under the Department of Defence for Full Cycle Docking of the Collins Class Submarines which will, if successful, provide a further significant economic stimulus for the State over many years into the future.

The scale and breadth of these investment opportunities highlights that there is **potential upside to WA's economic outlook beyond official estimates** presented in the 2019-20 State Budget.

To put the scale of future investment in WA into perspective, the total value of major projects not currently under construction is almost four times the total level of business investment undertaken in Western Australia last financial year, and almost twice the record level of business investment recorded at the peak of the resources investment boom in 2012-13.

The improvement in the State's investment outlook has also been reflected in the Australian Construction Industry Forecasting Council's (ACIFC) projections of the value of construction in Western Australia, with total construction activity forecast to **increase by an average of 6.2 per cent per annum over the next four years to \$39.1 billion by 2022-23**³ (Figure 2.3). The growth in construction activity is expected to be driven by engineering construction activity, which is forecast to grow by 7.7 per cent per annum over this period to \$24.6 billion by 2022-23, accounting for almost two-thirds of all construction activity.

FIGURE 2.3 CONSTRUCTION ACTIVITY, BY SECTOR, ACTUAL & FORECAST, \$BN



SOURCE: CONSTRUCTION INDUSTRY LONG SERVICE LEAVE SCHEME ANNUAL REPORT 2019

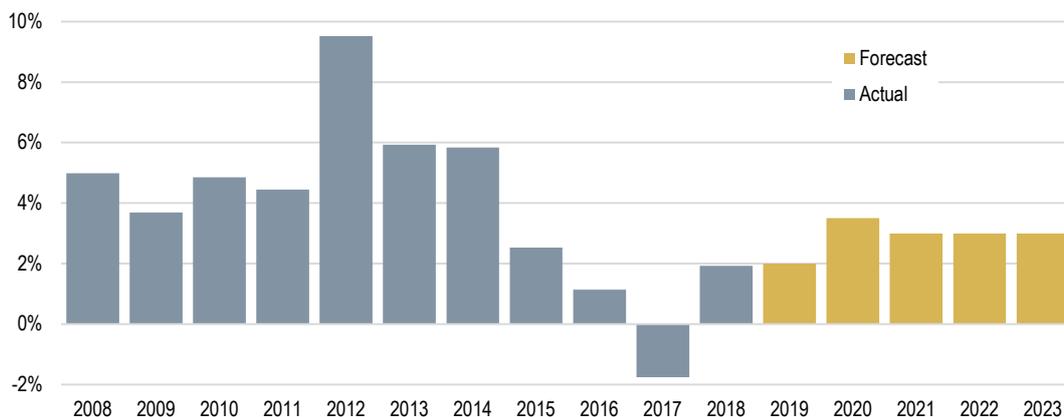
The ACIFC's forecasts also predict that residential construction activity will rebound strongly after 2019-20, rising by almost 24 per cent between 2020-21 and 2022-23 to \$9.7 billion. This will help to offset flat growth in non-residential building activity, which is expected to be broadly unchanged over the next four years.

Across the economy more broadly, ACIL Allen expects Western Australia's **GSP will expand by 3.1 per cent per annum between 2019-20 and 2022-23**, with both the **iron ore and LNG sectors likely to remain the State's growth engines** over the outlook period. Double digit growth rates are forecast in these sectors⁴, fuelled by the combination of both increased production and the new expansion projects (which are reflected in the outlook for construction activity).

3. Construction Industry Long Service Leave Scheme (MyLeave) Annual Report 2019.

4. Gross Value Added (GVA) basis.

FIGURE 2.4 WA ECONOMIC GROWTH, ACTUAL AND FORECAST, ANNUAL PERCENTAGE CHANGE IN GROSS STATE PRODUCT (GSP)



SOURCE: ACIL ALLEN CONSULTING

Importantly, the rebalancing of the State's growth profile towards investment activity will provide critical support for key consumer sectors of the economy, principally the retail, hospitality and housing sectors which have struggled in an environment where consumers have been unwilling or unable to spend. ACIL Allen estimates that the broader services sector will grow by 3.6 per cent over the forecast period, after contracting over prior four years between 2015-16 and 2018-19.

MAJOR PROJECT PIPELINE

Major Projects, Capital Value >\$1bn	Status	Start date	Value
Resources and energy			
Browse Upstream Development (Woodside Energy)	Under Consideration	N/A	\$21.0bn
Scarborough Upstream Development (Woodside Energy)	Under Consideration	N/A	\$15.0bn
Gorgon LNG Plant Fourth Train (Chevron Australia)	Possible	N/A	\$10.0bn
South Flank Iron Ore Development (BHP)	Under construction	2018	\$4.6bn
Solomon Hub Stage 2 (FMG)	Under Consideration	N/A	\$4.0bn
Jack Hills Iron Ore Development (Crosslands Resources)	Possible	N/A	\$3.7bn
Iron Bridge Iron Ore Development (FMG)	Committed	2019	\$3.6bn
Koodaideri Iron Ore Development (Rio Tinto)	Committed	2019	\$3.5bn
Balla Balla Iron Ore Development (Todd Corporation)	Possible	N/A	\$2.8bn
Eliwana Iron Ore Development (FMG)	Under construction	2019	\$1.7bn
Robe Valley Iron Ore Redevelopment (Rio Tinto)	Committed	2019	\$1.3bn
Nickel Laterite Project (GME Resources)	Under Consideration	N/A	\$1.1bn
Yalgoo Iron Ore Development (Ferrowest)	Possible	N/A	\$1.1bn
NorthLink WA (Main Roads WA)	Under construction	2016	\$1.0bn
Transport			
Anketell Port (Pilbara Ports Authority)	Possible	N/A	\$7.0bn
METRONET: Forrestfield-Airport Link (WA Dept of Transport)	Under construction	2014	\$1.9bn
Fremantle Outer Harbour Port Redevelopment (Fremantle Port Authority)	Possible	N/A	\$1.3bn
Tonkin Highway Corridor Upgrades (Main Roads WA)	Committed	N/A	\$1.2bn
METRONET: Morley Ellenbrook Line	Committed	2020	\$1.0bn
Perth Airport Terminal Upgrades (Perth Airport)	Under construction	2011	\$1.0bn
Commercial Developments			
Belmont Park Redevelopment (Golden Group)	Under construction	2018	\$3.8bn
Perth Hub Kings Square (Far East Consortium)	Under Consideration	2019	\$1.4bn
Perth Waterbank (Development WA)	Under Consideration	N/A	\$1.3bn
Brookfield Elizabeth Quay Lot 6/7 Development (Brookfield)	Possible	N/A	\$1.1bn
Bunbury Waterfront Development (Department of Planning, Lands and Heritage)	Under construction	2012	\$1.0bn
Jandakot City (Ascot Capital)	Under construction	2007	\$1.0bn
Manufacturing			
Burrup Peninsula Urea Project (Perdaman)	Under Consideration	N/A	\$4.3bn
Wagerup Alumina Refinery New Train (Alcoa Australia)	Possible	N/A	\$1.7bn
METRONET: Railcar Program	Committed	2020	\$1.6bn
Burrup Methanol Plant (Wesfarmers)	Under Consideration	N/A	\$1.4bn
Kemerton Lithium Hydroxide Processing Plant (Albemarle)	Under construction	2019	\$1.0bn
Other			
Square Kilometre Array Project Stage 2	Possible	2019	\$2.2bn

SOURCE: DELOITTE ACCESS ECONOMICS, WA BUSINESS NEWS, ACIL ALLEN CONSULTING

Selected Major Projects, Capital Value \$100m to \$1bn	Status	Start date	Value
Transport			
Bunbury Outer Ring Road (Main Roads WA)	Under consideration	2021	\$0.6bn
METRONET: Thornlie-Cockburn Link	Committed	2023	\$0.5bn
Perth Airport Third Runway (Perth Airport)	Possible	N/A	\$0.5bn
METRONET: Yanchep Rail Extension	Committed	2019	\$0.5bn
METRONET: Level Crossing Removal (Armadale Line)	Committed	N/A	\$0.4bn
Karratha to Tom Price Road (Main Roads WA)	Under construction	2019	\$0.3bn
METRONET: Byford Extension	Under consideration	N/A	\$0.3bn
Albany Ring Road	Committed	2020	\$0.2bn
Bindoon Bypass	Committed	2022	\$0.2bn
Fremantle Traffic Bridge Replacement (Dept of Transport)	Under consideration	2021	\$0.2bn
Mitchell Freeway Extension – Hester Avenue to Romeo Road (Main Roads WA)	Committed	2020	\$0.2bn
Spoilbank Marina Development (Department of Planning, Lands and Heritage)	Under consideration	2021	\$0.2bn
Leach Highway - Carrington St to Stirling Highway	Committed	2020	\$0.1bn
METRONET - Bayswater Station	Committed	2020	\$0.1bn
Ocean Reef Boat Harbour Redevelopment (Department of Transport).	Committed	2020	\$0.1bn
Resources and energy			
Mt Holland Lithium Development (Covalent)	Under consideration	2019	\$0.8bn
West Angeles Expansion (Rio Tinto)	Committed	2019	\$0.8bn
Buckland Iron Ore Project (BCI Minerals)	Under consideration	N/A	\$0.8bn
Barrambie Vanadium-Titanium Development (Reed Resources)	Under consideration	N/A	\$0.6bn
Lake MacKay Potash Mine (Agrimin)	Possible	N/A	\$0.6bn
Greenbushes Lithium Mine Expansion (Talisson Lithium)	Under consideration	2020	\$0.5bn
Great Northern Pipeline (Buru Energy)	Under consideration	N/A	\$0.5bn
Kalgoorlie Nickel-Cobalt Project (Ardea Resources)	Possible	N/A	\$0.5bn
Thunderbird Mineral Sands Project (Sheffield Resources)	Committed	Q3 2019	\$0.5bn
Commercial Developments			
Galleria Shopping Centre Redevelopment (Vicinity)	Under consideration	N/A	\$0.8bn
Garden City Shopping Centre Expansion (AMP Investments)	Possible	N/A	\$0.8bn
Development of Elizabeth Quay Lots 2/3 (CA & Associates)	Under construction	2019	\$0.7bn
Karrinyup Shopping Centre Expansion (AMP)	Under construction	2016	\$0.6bn
Westfield Whitford City Redevelopment, Stage 2 (Scentre Group)	Under consideration	N/A	\$0.5bn
Curtin University “Exchange” Development (Curtin University)	Committed	2019	\$0.3bn
Other			
Warradarge Wind Farm (Bright Energy Investments)	Under consideration	2019	\$0.5bn
Yandin Wind Farm	Under construction	2019	\$0.4bn
Kwinana Lithium Hydroxide Processing Plant (Tianqi)	Under construction	2017	\$0.4bn
Myalup-Wellington Water Project (Collie Water)	Under consideration	2020	\$0.4bn
School Maintenance Funding Package (Department of Education)	Under construction	2019	\$0.3bn
Royal Perth Hospital Redevelopment (Department of Health)	Possible	N/A	\$0.2bn

SOURCE: DELOITTE ACCESS ECONOMICS, WA BUSINESS NEWS, ACIL ALLEN CONSULTING

Since coming to power in March 2017, the McGowan Government has been committed to repairing the State's finances and developing policies that support jobs and growth in the WA economy and across its regions. However, these challenges to some degree have been mutually exclusive, with the necessary commitment to budget repair limiting the Government's ability to stimulate the economy through critical economic and social infrastructure projects.

With the State now in its strongest fiscal position since coming to power, and armed with a projected budget surplus of \$1 billion in 2019-20, there is now the **opportunity to implement a long term infrastructure plan for the State through the creation of Infrastructure WA**, a key election commitment of the McGowan Government

Infrastructure WA will now be tasked to provide advice and assistance to the WA Government on infrastructure investment priorities.

The commencement of Infrastructure WA has been welcomed by key stakeholders groups such as the Civil Contractors Federation of WA (CCF) and the Construction Contractors Association of WA (CCA), and the **development of the State Infrastructure Strategy will ensure industry not only has visibility of the State's infrastructure needs and priorities for the next 20 years, but also be able to inform the policy reforms required to bring the Strategy to life.**

In the context of the current economic conditions, and the long term planning associated with Infrastructure WA and the development of a State Infrastructure Strategy, three policy priorities are presented in this report, and are targeted at ensuring the **construction sector has the capacity, capability and opportunities to grow their pipeline of activity and develop the enabling infrastructure that will support the growth and development of the State.**

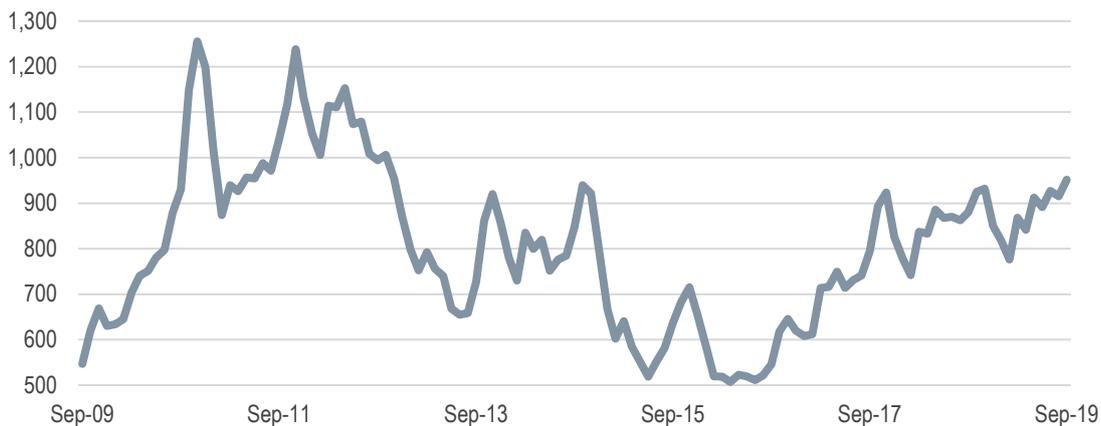
Addressing the human capital needs of industry

The preconditions for a return to trend growth in the WA economy have become more evident over the past year. The scale and breadth of these investment opportunities highlights that there is upside to WA's economic outlook beyond official estimates in the 2019-20 State Budget, and beyond ACIL Allen's medium term projections. The further upside is centred on the \$66 billion worth of major projects under consideration (with a final investment decision to be made within the next five years), which includes projects such as: Woodside's Browse and Scarborough developments, Perdaman Chemicals and Fertilisers' urea plant, and the various components of the METRONET public transport upgrades in the Perth Metropolitan Area.

Given this, it is appropriate for the State Government to align the State's human capital policy settings, which were last reconfigured at the tail end of the previous resources investment boom.

There are **emerging signs of a substantial uptick in demand for infrastructure-related skills in Western Australia**. Vacancies for skilled construction workers involved in major infrastructure projects have increased by 8.1 per cent over the past 12 months, and now stand at the highest level since November 2012 (Figure 3.1).

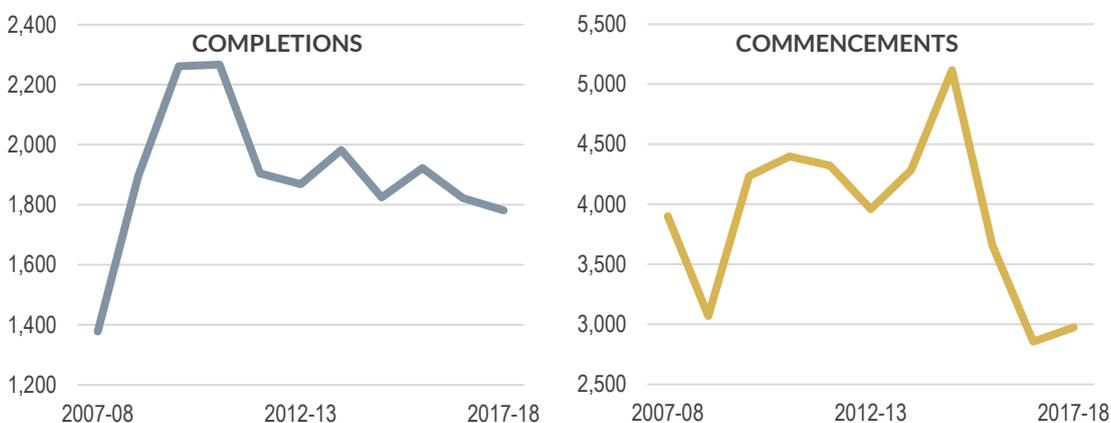
FIGURE 3.1 ENGINEERING CONSTRUCTION* INDUSTRY SKILLED VACANCIES, THREE MONTH MOVING AVERAGE, WESTERN AUSTRALIA



SOURCE: DEPARTMENT OF EMPLOYMENT, ACIL ALLEN CONSULTING
 *VACANCIES ARE FOR TEN OCCUPATIONS IN THE DEPARTMENT OF EMPLOYMENT SKILLED VACANCIES DATA SET, INCLUDING EARTHMOVING PLANT OPERATORS, TRUCK DRIVERS, BUILDING AND PLUMBING LABOURERS, CONCRETTERS, STRUCTURAL STEEL CONSTRUCTION WORKERS AND OTHER STATIONARY PLANT OPERATORS (AMONG OTHERS)

At the same time, the **number of construction industry apprentices and trainees in training in the State has fallen to historic lows**. Just under 1,800 apprentices and trainees completed their qualifications in the 2017-18 financial year, down from a peak of 2,270 in 2010-11. More significantly, the number of new commencements fell sharply to a decade low of 2,970 in the 2017-18 financial year.

FIGURE 3.2 BUILDING CONSTRUCTION AND ELECTRICAL TRADES APPRENTICESHIP AND TRAINEESHIP COMPLETIONS AND COMMENCEMENTS IN WA



SOURCE: DEPARTMENT OF TRAINING AND WORKFORCE DEVELOPMENT

It is important the apprenticeships and traineeships system is tailored to the needs of industry. To achieve this, the State Training Board, through the Construction Training Council, must continue to engage meaningfully with the building and construction sector to ensure the content of training packages fits the evolving needs of industry. The number of long term unemployed persons in the State (defined as people who have been searching for a job for more than one year) has hovered around a 25 year high of 20,000 persons for the past two years, further underscoring the need for adequate training pathways to assist this cohort re-enter the workforce.

Given it takes between three to four years for an individual to complete an apprenticeship or traineeship, and additional time in the workforce thereafter to become a productive member of the workforce, it is unlikely any uptick in construction activity that may lead to an increase in apprenticeship commencements will be in time to address the emerging skilled vacancies in the infrastructure sector.

Similarly, interstate and international migration have fallen away significantly from the resources investment boom peaks, as discussed in Section 1. The State Government’s State Priority Occupation List (SPOL) was pared back significantly in mid-2017. The **2019 SPOL does not include any of the engineering construction skilled occupations highlighted in Figure 3.1 as priority occupations**. This will limit the ability of international migration to address short-term skills needs where the supply of local labour is found to be inadequate for industry’s needs.

The high competition from the Eastern States for skilled construction workers – particularly skills around rail construction, needed for both METRONET and the iron ore expansions – is another factor affecting local supply. Human capital is a constant policy priority for the State. However, it is important for the State Government to focus its efforts on the human capital needs of the engineering construction sector, particularly as the sector is a key enabler for the State’s economy at large given its role in building new infrastructure.

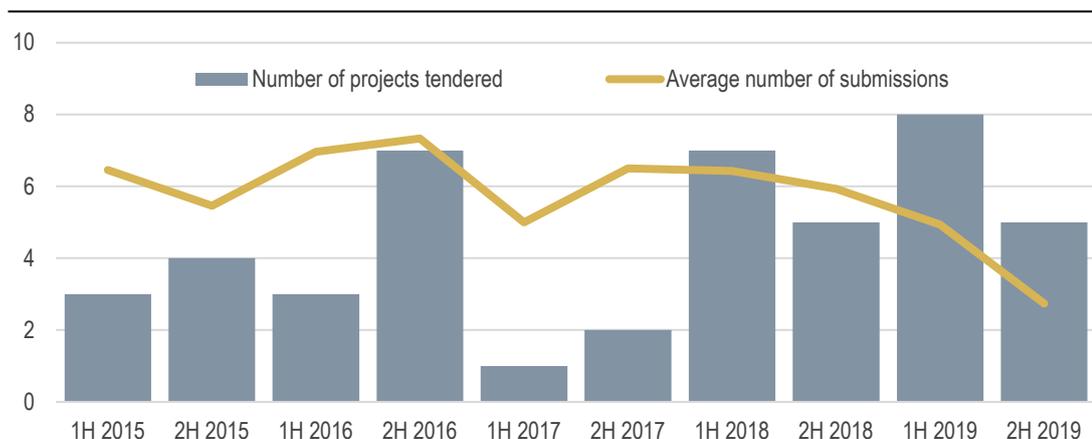
Ensuring the State’s approach to procurement is fit for purpose

The construction industry believes a fresh approach is needed to State Government infrastructure project procurement and delivery. Over time, agencies in Western Australia (and other Australian states) have tended to move away from collaborative, risk-sharing approaches to the procurement and delivery of major infrastructure works.

Over the past two years, **challenging economic conditions in the State have led to a reduction in the number of active players in the construction and infrastructure sector**. The number of construction-related businesses with an annual turnover of more than \$5 million has fallen from 632 in 2015-16 to 539 in 2017-18 – a reduction of 15 per cent in just two years. This has in turn led to a reduction in the number of bidders available to tender for government works.

A desktop review of Main Roads WA contracts over \$10 million in value tendered over the past four years was conducted which examined the value of the contract, the number of bidders, and the procurement method (Figure 3.3). One clear trend emerges: **over the past two to three years, the average number of bidders per tender has fallen significantly, to the point where over the past 12 months an average of just 2.7 bidders have responded to 13 tenders (down from a peak of 7.3 in the second half of 2016)**. Over this time, the total value of Main Roads WA contracts over \$10 million was \$2.5 billion, highlighting the importance of adequate competition to improve the State’s value for money outcomes associated with this spending.

FIGURE 3.3 MAIN ROADS WA TENDERS, NUMBER OF TENDERS AND AVERAGE NUMBER OF BIDDERS, 1H 2015 TO 2H 2019



SOURCE: TENDERS WA, ACIL ALLEN CONSULTING

The New South Wales Government recently recognised the importance of collaboration and engagement with construction contractors, having experienced its own construction and infrastructure boom over the past five years. The **NSW Government signalled its commitment to fostering a positive working relationship with contractors through the release of an action plan (see Box 3.1), the centrepiece of which was an objective to be a “best in class client” for the construction industry.**

Box 3.1 NSW GOVERNMENT CONSTRUCTION SECTOR ACTION PLAN

In June 2018, the NSW Government released its “Action Plan: A ten point commitment to the construction sector” recognising that it can only achieve its infrastructure objectives in partnership with the private sector, and that this depends on healthy ongoing competition between a capable field of construction firms, sub-contractors and the industry supply chain. The statement reinforces the fact that value for money does not mean obtaining the lowest price, but taking a longer term view on quality, innovation and a competitive and sustainable construction sector.

The Action Plan covers all Government-procured construction and is designed to:

- Encourage an increase in the “supply side” capacity of the sector to meet future demand.
- Reduce industry’s costs and “down-time” by making Government procurement processes more efficient.
- Develop the skills, capability and capacity of the construction industry’s workforce.
- Encourage culture change and greater diversity in the construction sector and its suppliers.
- Foster partnership and collaboration between the public and private sectors to drive innovation in the NSW construction sector.

Source: NSW GOVERNMENT

The Western Australian Government should consider a similar process of deep engagement with construction contractors, on account of recent trends in the sector and the strong pipeline of capital works planned by the State.

With increasing competition for contracting resources from the resources sector and other States, this engagement is vital to ensure the Western Australian Government continues to be regarded as a client of choice.

Main Roads WA’s long-standing engagement with industry through the quarterly WA Road Construction and Maintenance Industry Advisory Group (WARCMIAAG) is a good example of how such engagement can operate for the benefit of all parties. Through WARCMIAAG and other workshops on specific issues and projects, Main Roads is currently working with industry groups to address concerns about high bid costs and excessive risk transfer – issues that are prevalent right across State Government infrastructure procurement.

With the State Government currently developing or revising multiple policies (e.g. WA Jobs, local jobs, aboriginal employment, buy local) to facilitate improved employment and procurement opportunities within the State, continued consultation and central coordination is essential to ensure alignment in achieving the desired outcomes and efficient delivery of the Government’s programs.

A competitive and sustainable construction sector will be critical to ensuring the long term objectives in the proposed State Infrastructure Strategy are met.

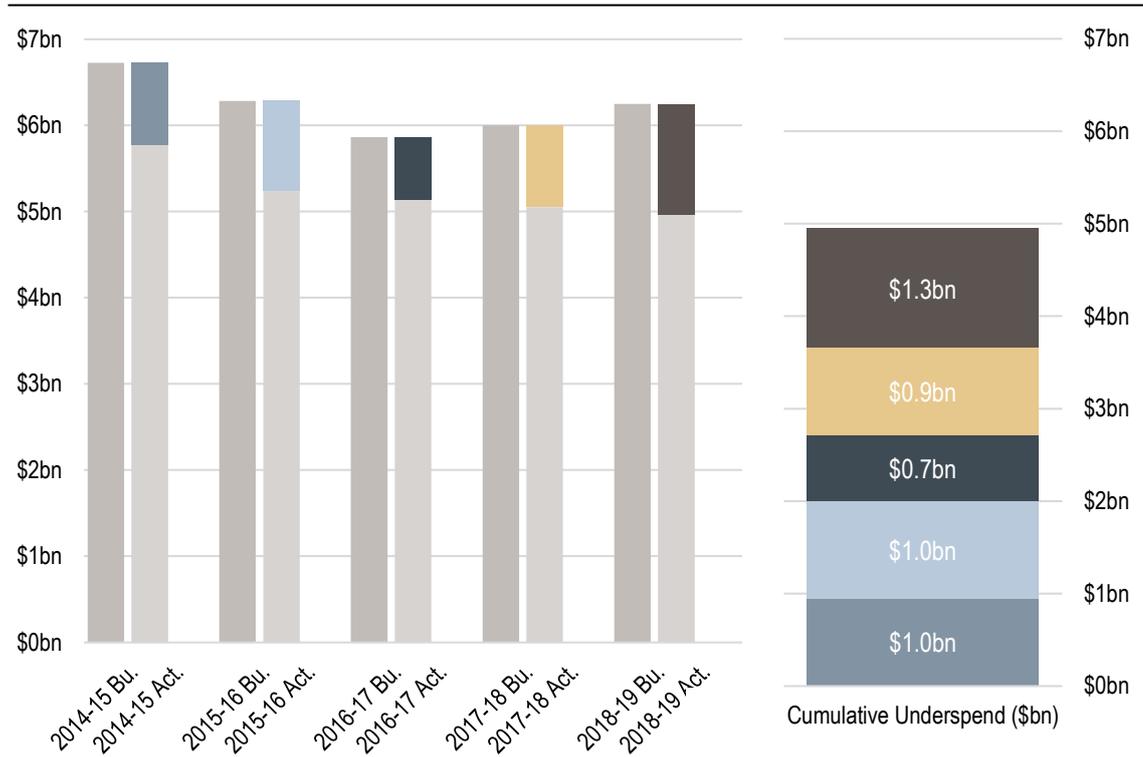
Unlocking the full scope of the State’s capital works program

The State Government is the largest regular investor in capital assets across its Asset Investment Program and the general capital works budgets of government agencies. In 2018-19 alone, the State Government spent \$4.95 billion on asset investment across schools, roads, public transport and utilities infrastructure amongst its raft of investment priorities.

However, while the \$4.95 billion in asset investment represents a significant spend, it was the lowest capital works program undertaken by the State Government in the past decade (see Figure 1.10). In addition, it represented an underspend of \$1.3 billion versus the budgeted capital works program in the 2018-19 State Budget.

This is not a new issue for the State. **Over the past five years, the State Government has underspent on its budgeted capital works program by an average of one billion dollars each year, for a cumulative underspend of approximately \$5 billion** (Figure 3.4).

FIGURE 3.4 TOTAL PUBLIC SECTOR PURCHASE OF NON-FINANCIAL ASSETS (CAPITAL INVESTMENT), \$BN PER ANNUM, BUDGET VS ACTUAL



SOURCE: ACIL ALLEN CONSULTING

There are likely to be a range of factors which influence the actual volume of infrastructure spending versus planned infrastructure spending, some of which are within the State's control and some which are outside of its control. It is therefore important for the State Government to ensure those things which are within its control are managed effectively, to ensure it meets its capital investment ambitions.

Ultimately, this **level of underspend can have a significant impact on the construction sector**, particularly in periods where construction activity is weak. The sector looks to the State Government's budget as a guide for the level of work it can reasonably expect to be available over the forward estimates period. **If the State's underspend continues at the current rate, the actual capital works spend projected in the 2019-20 State Budget will be \$3.6 billion lower over the forward estimates – equivalent to the construction activity associated with three Perth Stadiums and the associated transport infrastructure.**

This highlights the **important role that the newly-formed Infrastructure WA, and the development of a 20 year State Infrastructure Strategy, must play in guiding the medium term infrastructure priorities and their delivery for the benefit of the State.**

ABOUT THE CONSTRUCTION CONTRACTORS ASSOCIATION OF WESTERN AUSTRALIA

The CCA is the peak industry body for the major building and civil construction contractors in Western Australia.

Through its members, the association is responsible for \$5 billion per year in West Australian turnover, undertaking over half the major building and infrastructure work performed in WA.

Members of CCA are contractors with national operations and with annual turnovers typically exceeding \$400 million.

The CCA's prime purpose is to represent the construction industry to government, private sector clients and relevant stakeholders with the aim of ensuring best practice procurement, value for money and creating a fair and safe future for the industry in the delivery of projects

The logo for the Construction Contractors Association of Western Australia (CCA) features the letters 'CCA' in a large, bold, serif font. The letters are a dark brown color. Below the letters, there are two horizontal lines, one above and one below, in the same dark brown color.

Construction Contractors Association
of Western Australia Inc

ABOUT THE CIVIL CONTRACTORS FEDERATION

The Civil Contractors Federation is the peak body representing Australia's civil construction industry, supporting members' businesses and providing a unified voice to all levels of government. The CCF has branches in all states and territories and has around 2000 Contractor and Associate members nationally.

The CCF is committed to furthering the interests of the civil construction industry. Through strong advocacy we influence government policy at Local, State and Federal levels.

In Western Australia, CCF WA actively represents the State's civil construction industry, pursuing our vision of a safe, sustainable industry constructing world-class infrastructure.



**CIVIL CONTRACTORS
FEDERATION**