



Construction Industry



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Map of the Kimberley Region



Legend

- Sealed major road
- Sealed minor road
- Unsealed road
- 4WD track
- 4WD track only
- 1 National highway
- 2 National route
- Marine park boundary
- Reef
- Conservation park
- Marine park
- National park
- Airport
- Local Government Area boundary

Approximate driving distances (km)

	Perth GNH	Perth NWCH	Broome	Derby	Fitzroy Crossing	Halls Creek	Wyndham	Kununurra	Darwin
Perth GNH	—	—	2237	2391	2565	2843	3197	3202	4039
Perth NWCH	—	—	2374	2528	2701	2990	3345	3349	4176
Broome	2237	2374	—	221	395	683	1037	1042	1869
Derby	2391	2528	221	—	259	547	894	899	1733
Fitzroy Crossing	2565	2701	395	259	—	289	642	647	1474
Halls Creek	2843	2990	683	547	289	—	354	359	1186
Wyndham	3197	3345	1037	894	642	354	—	100	929
Kununurra	3202	3349	1042	899	647	359	100	—	829
Darwin	4039	4176	1869	1733	1474	1186	929	829	—

GNH = Great Northern Highway, NWCH = North West Coastal Highway

Executive Summary

This regional brief outlines the state of the construction industry, its opportunities, and its challenges and highlights recommendations to enable long term sustainable growth of the sector for the betterment of the Kimberley and its people.

The Kimberley construction industry is the top contributing sector for gross revenue to the Kimberley \$630M per annum and employs 8% of the workforce. 98% of construction businesses are sole traders or have less than 20 employees.

Over the past decade, the industry has suffered a severe retraction with the value of residential and non-residential construction declining over 80% and workforce down 20%. This situation is attributed to

- The region has 50% indigenous population and is characterised by low home ownership and high rentals (63%) dominated by government and employee subsidised housing.
- Population decline (-15% predominately non indigenous) leading to oversupply of housing and a dramatic fall (up to 50%) in the median house price, impacting investor lead demand and private investment in non - residential construction of hotels, shopping centres.
- Retracting mining and resource and stagnant tourism sectors impact demand for new development.
- Government works make up the bulk of non-residential construction has fallen sharply since 2014. \$66M awarded in the region in 2018-19.

- Current Australian Government tax regimes favour employer subsidised housing over subsidisation of private housing disincentivises private home ownership reducing demand.

Access to and retention of skilled labour presents an ongoing challenge despite the high employment rate – particularly within the Indigenous population. Aboriginal Employment targets (25%) are not realistic to the skilled workforce available. Procurement and tender processes alienate local business from securing projects, contributing to reduction in retention of skilled labour and the long-term development of skilled workers.

RDAK Recommendation:

- Bringing forward of scheduled Australian Government public works contracts to immediate revive the regions construction industry.
- Review Fringe Benefits Scheme and other taxes currently weighted in favour of employer subsidised housing.
- Urgent review Australian government tender and procurement with regards to: Indigenous Procurement Policy and Aboriginal employment rates, sectioning large tenders to allow local business to deliver contracts and local content zones to encompass regions.



The Snapshot



Top contributing sector for gross revenue \$630M per annum.



8% of the Kimberley work force¹.



98% Small business less than 20 employees
54% are sole traders.



The value of annual overall construction work is down by 80% (2009-2019²).



Low home ownership levels - 63.6% population use rental housing.



Business numbers reduced by 15% (2014-2018).



Government funded works have fallen sharply since 2014³.



Government funded contracts make up the bulk of non-residential construction.



Skilled labour presents challenge.



Current procurement policies and tender processes alienate local business

Industry Overview

Construction is the primary revenue sector contributing 12% of overall gross revenue (\$630 M) to the Kimberley region. It is the fifth largest employer at nearly eight percent and dominated by small business with 98% having 20 employees or less and of those 58% record as sole traders.

The construction and building maintenance sector have suffered a major contraction over the past decade with all building approvals declining over 80% and the number of construction businesses contracting by 12% from 2014-2018⁴.

Residential construction sector saw value of dwelling construction fall 83% from 2013-2019 with non-residential construction also falling 79% over the same period.

This downward trend is forecast to continue with data showing just a total of six building approvals for Shire of Broome, one for Shire of Derby-West Kimberley and none for Shire Wyndham-East Kimberley and Shire of Halls Creek at year to date 2019-2020⁵.

Declining population, low home ownership rates, a steep reduction in medium house prices and an excess of unoccupied dwellings have contributed to the downturn in residential construction.

Government funded public works of both residential and non-residential buildings has also fallen sharply since 2014, with limited new major stimulus forecasted.

The further winding down of private infrastructure development led by the downturn in the mining and resources sector and stagnated tourism has also impacted construction works.

¹REMPLAN

²Kimberley Development Commission Website

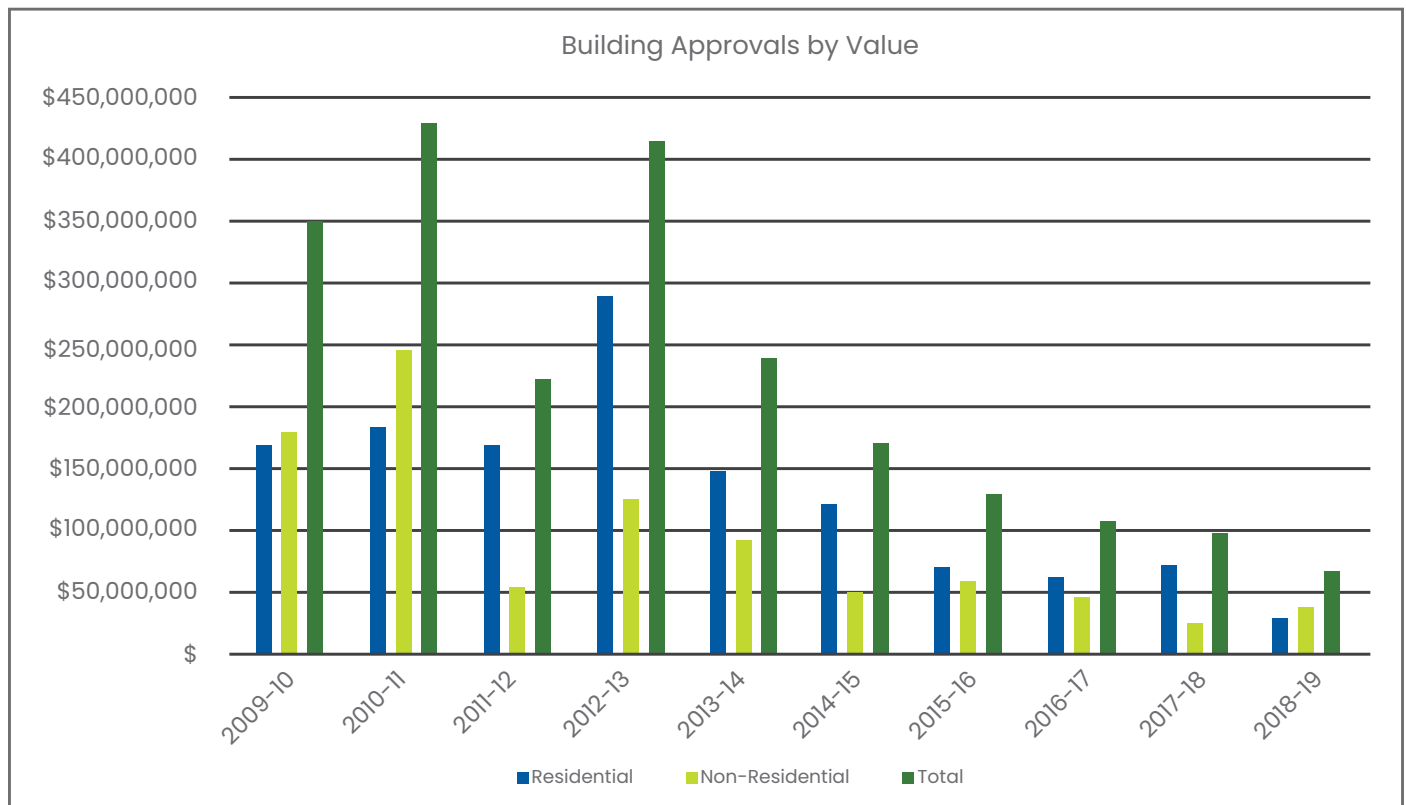
³Western Australian State Government Who Buys What and How 2018-19

⁴Australian Bureau Statistics 2018

⁵See ref 4

Industry Overview continued

Over the longer term, the Kimberley's young population will see increased demand for residential construction⁶, provided there is a shift from employer and government assisted housing toward home ownership particularly within the Indigenous community. However, it is unlikely that the construction industry will see any improvement in the short term until there is either a major project or several concurrent projects which stimulates economic activity.



Markets

Residential Construction

A confluence of factors has contributed to the significant contraction in residential construction.

The population has decreased 15.5%⁷ over fifteen years due partly retraction in the resource sector and the increased outward migration of non-indigenous people reportedly due to high cost of living, poor perceived employment and education opportunities.

As a result, there has been a considerable increase in unoccupied dwellings and severe reduction in rental property prices and therefore dwindling incentive for investors.

Median house prices across the region has seen a reduction of between 22-59%, making existing housing available at well below replacement cost disincentivising new construction and investor led growth.

Home ownership levels are low – of occupied private dwellings in Kimberley 13.2% are owned outright, 17.4% are owned with a mortgage and 63.6% are rented. Of that rental market, a significant proportion are government or community provided social housing and employer-based rentals, driving little demand for new home-owner dwelling construction.

The finalisation of the decade-long government funded National Partnership on Remote Indigenous Housing in 2018 has had a substantial impact on decreasing residential construction rates – as 80% of the national program was delivered in the Kimberley.

⁶ ATEA Kimberley Snapshot 2020

⁷ ABS Census 2001-2016

Civil & Non-Residential Construction

A major part of the non-residential construction and building maintenance sector is driven by government contracts. Over 60% of contracts for 2018-19 was attributed to government funded non-residential buildings, which comprises industrial, commercial educational, health and other buildings. Overall, government funded works have fallen significantly since 2014, in 2018-2019 there were 76 contracts awarded with a value of \$66M, of those 83% went to local contractors under the local content policy⁸

Although there has been recent investment in road network upgrades projects which benefits the civil construction sector, they do not utilise the full range of construction industry businesses⁹

Private investment into new or expanding factories, shopping centres, medical centres and hotels has also stagnated due to population retraction and static tourism visitation and the resultant lowered overall economic activity.

Labour

Despite the high unemployment rate across the region, access to suitably qualified labour presents a challenge. Qualified technicians such as electricians are being flown in by some businesses unable to hire skilled labour locally. High cost of living and relatively low wages comparable to a similar FIFO role within the resource sector makes attracting and retaining skilled workers difficult.

Current procurement policies and tender processes for public works is contributing to reduction in retention of skilled labour and the longer-term development of local skilled workers. The short-term nature of construction projects, short tender lead times and limited government contracts prevent small businesses from having the security to offer apprenticeships to build the local workforce over time.



STRENGTHS

- Natural population growth driver for construction
- Ongoing Government public works create baseline for activity

OPPORTUNITY

- Increased incentive for private home ownership to drive residential construction
- Expedite public works
- More direct application of local content policy

BARRIERS

- Procurement and tender policies need review
- Freight, transport and insurance costs
- Limited skilled labour
- Current Aboriginal Employment Targets unachievable

RISKS

- Failure to realise government public works
- Further retraction in population creating downturn in residential works
- Delays in private investment development

⁸ WA Government Who Buys What and How

⁹ ATEA Kimberley Snapshot 2020 5

Industry Opportunities

Increasing Homeownership

Changes to all levels of government policies to encourage residential workers over FIFO workforce and the reconsideration of fringe benefits tax to allow equal incentive for subsidisation of private properties and employer provided housing would encourage local workforce to enter the home-owner market creating increased residential construction demand.

Expedite Public Works

Government prioritising and bringing forward scheduled works for the region will stimulate construction industry directly.

Local content policy

More direct application of local content for government works and the revision of local content policy to reflect distances in the region. E.g. West Kimberley based business are not considered local content for tenders to the East Kimberley and are subject to the same conditions as Perth based companies even though they can be deployed more quickly, as cost effectively and can deliver ongoing maintenance programs.

Industry Barriers

Procurement and Tender Policies

The current construction procurement policy requiring 25% of indigenous workforce¹⁰ is not achievable for many businesses due to a lack of suitably qualified indigenous workforce to fulfill the requirements. Both indigenous and non-indigenous local businesses are unable to genuinely compete for tenders or complete projects when there is limited indigenous workforce.

This had led to the practise of black cladding (non-Indigenous business entity or individual taking unfair advantage of an Indigenous business entity or individual for the purpose of gaining access to otherwise inaccessible Indigenous procurement policies or contracts) and companies based out of the region are winning tenders and then not delivering on the appropriate indigenous content. Stronger monitoring and accountability for indigenous content must be initiated.

Additionally, local nonindigenous businesses are either not eligible for or not offered tender opportunities for government works due to the Indigenous Procurement Policy and state Aboriginal Employment Targets. Unable to compete with subsidies afforded indigenous businesses many are permanently closing their doors - thereby losing highly skilled labour as trade people leave the region to find regular work. This is further compounding the retraction in construction as there is little demand for new private residential builds due to the declining population¹¹.

It would seem the pendulum has swung too far, and the Indigenous Procurement Policy needs to be addressed if

all contractors and suppliers are to have fair and equitable access to supply opportunities in the Kimberley region.

Government project tenders are being awarded to large companies based outside of the region who are under quoting on the true cost of completing the job remotely. The work is then completed in an inferior manner with local tradespeople called in to retrospectively fix issues, blowing out costs.

Large government contracts are put to tender with short led timeframes and large scaled schedules with little consideration of building local capacity. Large scale works should be broken down into smaller packages over a scheduled time period to enable regionally based businesses to deliver projects. Better understanding is needed of the economic benefits of awarding tenders based on true cost of works and in smaller packages to reinvigorate the construction industry.

Freight, Transport and Insurances

Business related costs such as freight and petrol are consistently higher than metropolitan standards for example, unleaded petrol costs on average 30% more in the region. Professional indemnity insurance premiums for the construction industry have increased well over 200% with policies having more exemptions and higher excesses increasing the cost of business inputs.

¹⁰ Housing Western Australian – Aboriginal Employment Plan Kimberley Pilbara

¹¹ Interview Ian McKenna, Owner, East Kimberley Construction

Industry Risks

Several risk factors can affect the construction industry:

- Failure to realise scheduled government works
- Lengthy postponement of private sector construction planned from the mining and other key sectors
- Further retraction of the population causing reduction in residential construction and investment.

Report Recommendations

Recommendation One

Bring forward of scheduled Australian Government public works contracts to immediate revive the regions construction industry.

Recommendation Two

Review of the Fringe Benefits Scheme and other taxes currently weighted in favour of employer subsidised housing rather than subsidised regional residential housing to encourage homeownership and long-term population growth.

Recommendation Three

Urgent review of current Australian government tender and procurement process about:

- a. Indigenous Procurement Policy is precluding some local nonindigenous businesses from eligibility to tender for any government works, causing business closures and skilled labour loss from the region.
- b. Large scale tenders to be sectioned into smaller work schedules to enable local businesses to deliver works.
- c. Local content zones should encompass the whole region rather than a set distance to allow local business to fulfill regional contracts.

Recommendation Four

Review of the Aboriginal Employment Targets for the construction industry in the Kimberley which at 25% outweighs the skilled indigenous labour available to fulfill it.



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