



CONTRACTING AUSTRALIA

PUBLIC SECTOR CONTRACTING STATE OF THE MARKET REPORT

Our clients are creating the future.

They're producing intelligent built environments and infrastructure that keep us safe and comfortable. They're rolling out technology that allows humans to connect and communicate. They're coming up with clever ways to process resources, make new things and increase human capital.

We support them to make it all happen.

Sharpe & Abel is a legal firm with business smarts and niche industrial expertise. Industrial companies come to us for astute legal advice and strategic capacities. We get to know our clients so we can help them to avoid obstacles, optimise processes and focus on what they're great at.

Our people are values-led and results driven. Hand on heart, we're not afraid to say that core values permeate all that we do – competence, trust, love, freedom and security. It's hard to put into words; you'll just know and feel it when you engage with us.

So, we don't just do law, we do what it takes to help our clients thrive, and this report is part of that drive. We bring you the latest industry insights, the latest intelligence and the latest resources, so you can plan your next move with confidence that we've got your back.

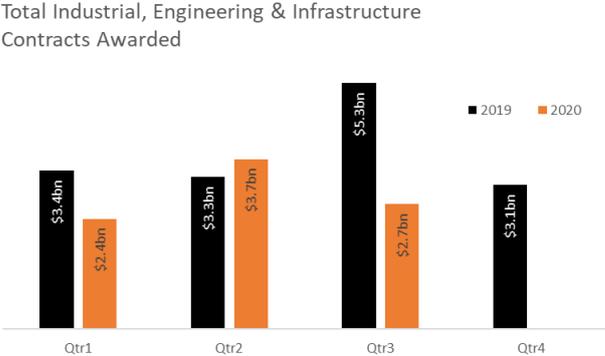
We're proud to bring you our public infrastructure contracting State of the Market Report, giving you the latest insights and information into the sector's relationship with the public sector. At the time of writing Australia is emerging from its second wave of Covid 19, and some sort of business as usual is resuming. This report is therefore an essential resource to understand exactly what the 'new normal' means for our clients.

Our focus for this research is public sector contracts in industrials, technology, engineering & infrastructure¹, because that is our core client group. We pulled data on some 61,085 public sector contracts and crunched the numbers to find out who is buying what, where, when and how.

¹ This research excludes major military hardware expenditure by Department of Defence, but does include all infrastructure and construction expenditure by DoD.

FEDERAL GOVERNMENT CONTRACTING

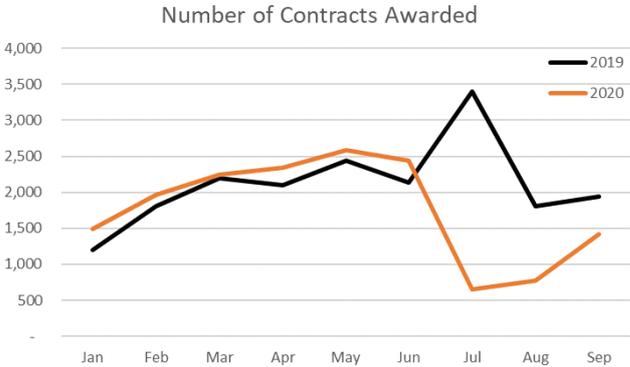
Our analysis shows a substantial contraction in the infrastructure spending by Federal Government in 2020.



Quarter 3 of 2020 saw the Australian Federal Government let some \$2.7bn in contracts to the sector, this was a drop of 10.8% from the previous quarter of \$3.9bn. However, the year-on-year decline has been some 49.2% decline from the \$5.3bn in Q3 of 2019. In past years Q3 has seen a spike in spending as the new financial year gets underway. Not this year.

In the year to date, the Federal Government has spent some \$8.8bn compared to \$12.0bn in the same period the previous year.

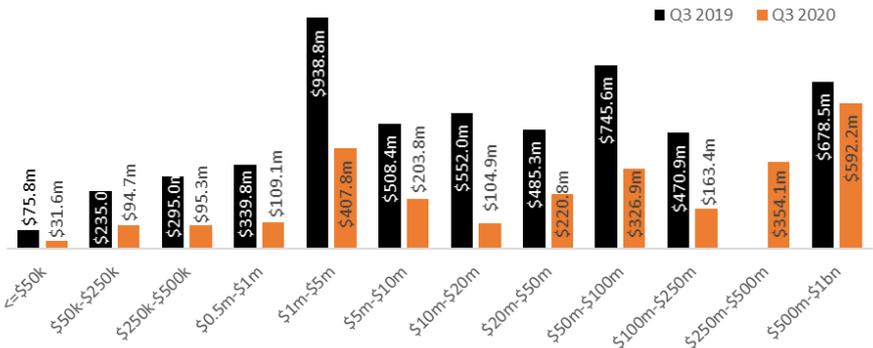
This means that companies that contract with the federal government are facing a double hit from coronavirus and declining spend by Federal Government. Whilst the Federal Government has announced the fast track of some \$3.9bn of major project infrastructure spending², this barely fills the rapid drop in the value of routine contracts.



The reason for this is clear when looking at the monthly data. As the second wave of Covid19 hit in July, the normal spike in contracts awarded at the start of the new financial year dropped off. However, as the country re-opens, contracts are approaching three quarters of their 2019 levels by September.

The government could therefore significantly enhance economic recovery within the sector simply by resuming the normal processing of contracts. Positively September did see some resurgence in the number of contracts awarded to around three quarters of the previous year.

Value Awarded by Size of Contract

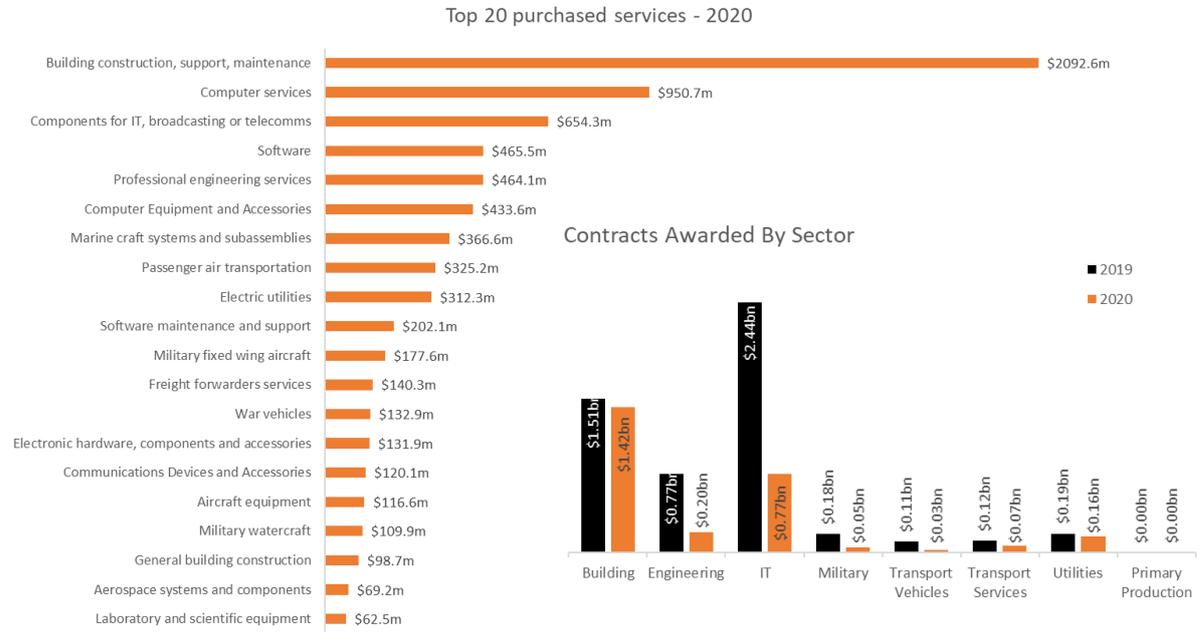


Breaking the data down by contract value we find that neither end of the market has been safe. Micro-contracts of \$50,000 or less have seen as much decline as those over \$50m.

² <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

SERVICES PURCHASED

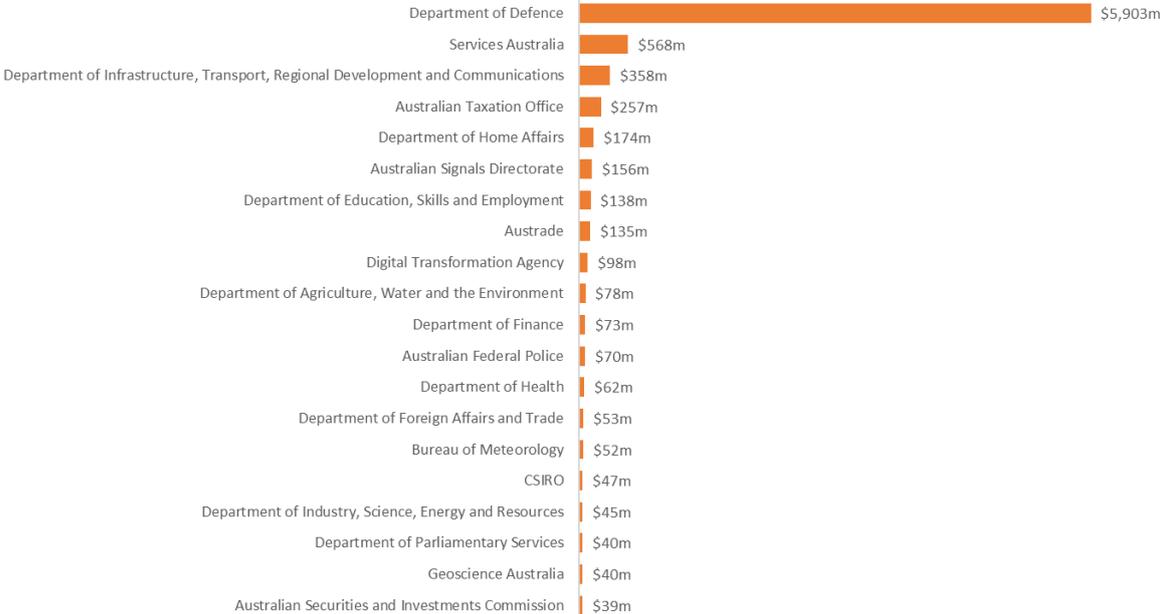
By far the most commonly purchased services in 2020 are building construction, support & maintenance services. The next three services related to IT & software, whilst professional engineering services are fifth. However, the overall picture hides differing fortunes within different sectors, with Engineer and IT seeing significant declines.



	Q3 2019	Q3 2020	
Building	\$1.5bn	\$1.4bn	- slight decline in general building & maintenance - offset by increases in civil engineering and commercial buildings - very large average contract size
	⇒ -5.9%	\$3.26m per contract	
Engineering & Scientific	\$0.8bn	\$0.2bn	- moderate contract size - significant drop - includes engineering maintenance
	⇓ -73.9%	\$0.48m per contract	
IT	\$2.4bn	\$0.8bn	- moderate contract size - includes hardware, software, cloud & infrastructure - significant decline
	⇓ -68.4%	\$0.66m per contract	
Military	\$184m	\$49m	- excludes major military hardware acquisitions - small average contract size - significant decline
	⇓ -73.6%	\$0.20m per contract	
Transport Vehicles	\$111m	\$30m	- consists of acquisitions of complete vehicles - significant drop year on year - small contracts
	⇓ -73.3%	\$0.31m per contract	
Transport Services	\$118m	\$67m	- includes moving, packing, transportation, logistics - decline year on year - moderate contract size
	⇓ -43.0%	\$0.54m per contract	
Utilities	\$187m	\$163m	- smaller decline - large contract size - includes some energy supply contracts
	⇒ -12.8%	\$2.03m per contract	
Primary Production	\$2.5m	\$4.7m	- only increase - very small sector (Only worth \$5m) - primary production industries
	⇑ 85.5%	\$0.13m per contract	

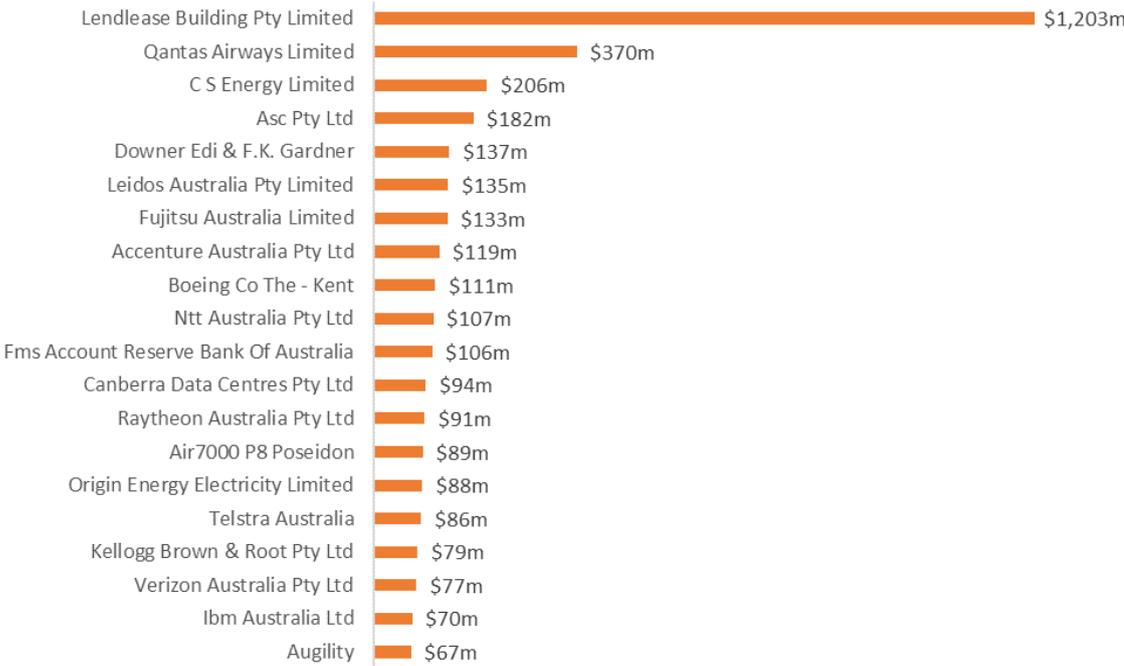
MAIN BUYERS

At federal level the main buyer is the Department of Defence in 2020. This excludes major military acquisitions. As such the largest proportion of this is the maintenance of the defence estate, whilst second is engineering services provided to the Department of Defence, although IT services is the third largest component.



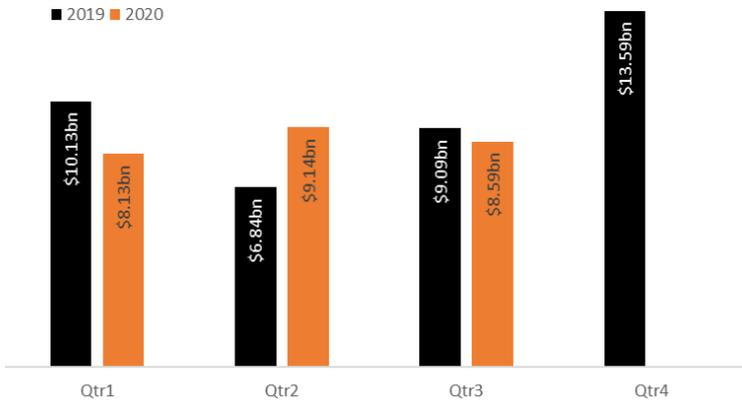
MAIN SELLERS

By some margin Lendlease is the most successful contractor, mainly due to contracting for the defence estate. It therefore also presents itself as the biggest opportunity for subcontracting opportunities. However, there are a broad range of other opportunities, and by no means is Lendlease dominant – it accounts for only an eighth of all contracts.



STATE GOVERNMENT CONTRACTING

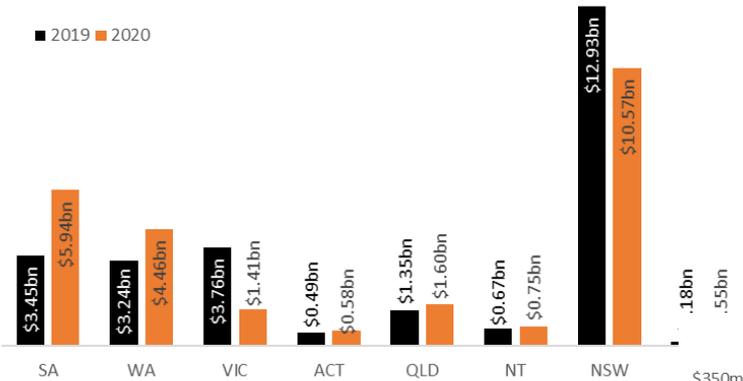
State Contracts by Quarter



The state level analysis shows a more encouraging picture. Across all states Quarter 3 was only 5.5% down on the same quarter last year, and 6.0% down on quarter 2.

However, these headline figures hide the impact of Coronavirus on the state contracting sector.

Total Contracts Q1-Q3 by year

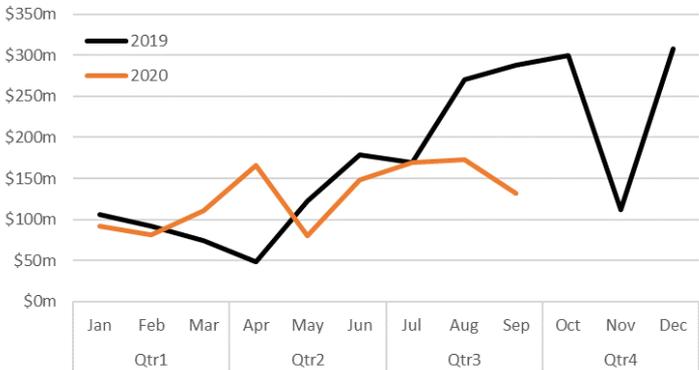


All states actually increased their expenditure in 2020, with the exception of New South Wales and Victoria.

New South Wales dropped but only because Q1 2019 was exceptional, involving the award of contracts for the Sydney Metro and the Sydney football stadium.

However, Victoria shows a familiar story. At the epicentre of the second wave of Covid19, it appears that government contracting activity has declined to a standstill. Even after some high value contracts awarded in 2019 are excluded, the traditional boom period that coincides with the start of the new financial year just hasn't happened, with contracts offered in September less than half that offered in the same month in 2019.

Victorian Contracts exc >\$100m



OUR CONCERNS FOR OUR CLIENTS

With the same contractors tendering for a smaller number of contracts, public sector bodies may feel able to turn the competition to benefit the public purse. Whilst the obvious point of competition will be on price, governments may also seek to reduce their risk of additional costs by:

- increasing the value of liquidated damages for delays
- imposing tougher conditions for requests for extensions of time to complete works

- reducing standard hourly rates for variations to contracts
- adding or enhancing Key Performance Indicators (KPIs) to impose stricter controls on contract performance.
- asking contractors to accept additional liabilities and indemnities as part of the contract

Indeed, some contractors may even offer to take on these risks in a bid to gain competitive advantage. Risks will be magnified as they flow down from lead contractors to subcontractors.

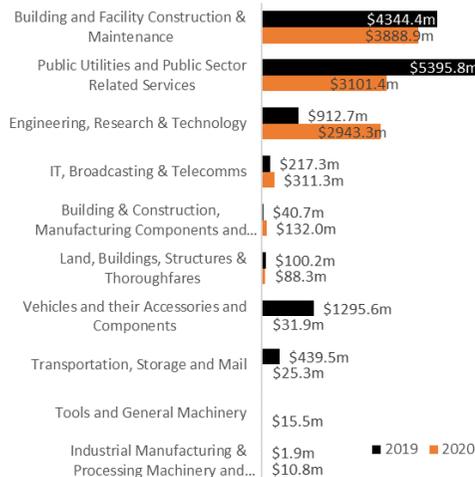
However, many contracts will outlast Covid19 and contractors may come to regret agreeing to these conditions when competition subsides. If these risks materialise contractors may be left with an unusually high level of unforeseen costs, crippling their business.

A simple cost-effective way to mitigate this risk is through contract reviews. This is a simple contract risk assessment by a qualified lawyer which will extract the risks from the legalese and allow you to take an informed commercial decision whether to accept the risks or negotiate them out.

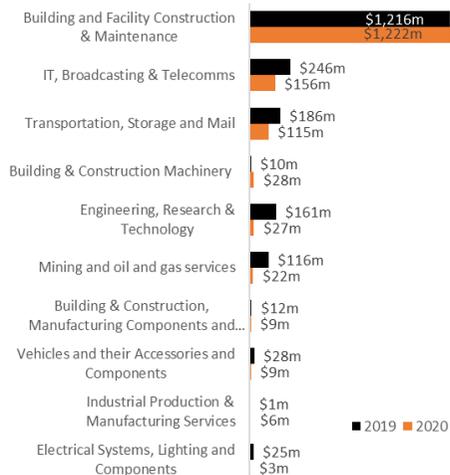
It doesn't have to be expensive either, our FREE [contract assessment tool](#) will help you triage contracts so you only get legal advice when you really need it.

MOST IN DEMAND SERVICES

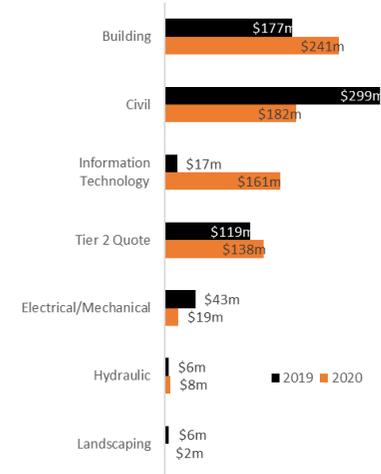
New South Wales



Queensland



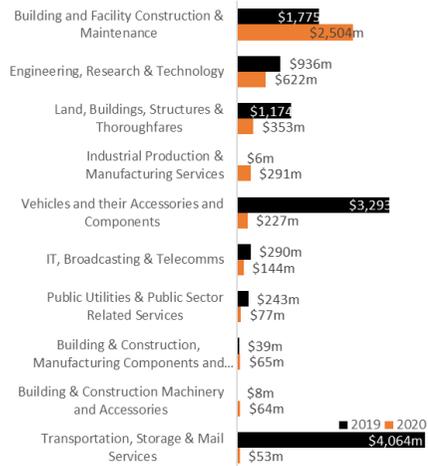
Northern Territory



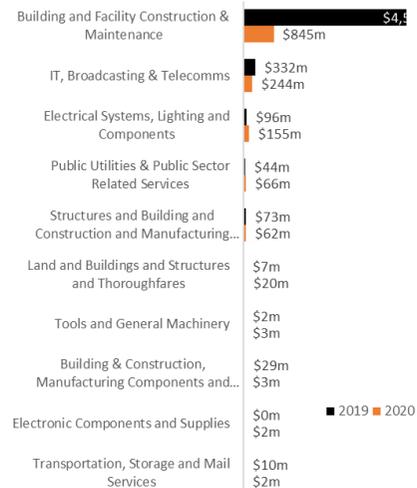
Australian Capital Territory



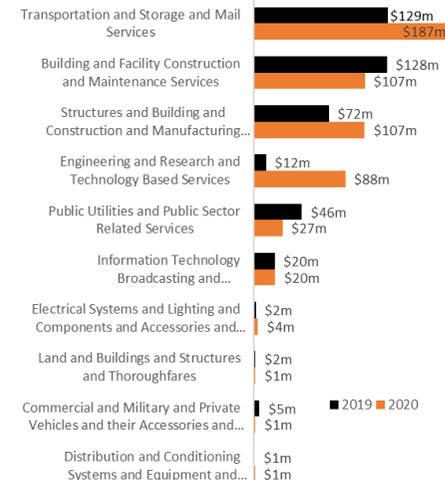
Western Australia



Victoria



Tasmania



KEY BUYERS

Transport buyers dominate in New South Wales, Queensland, South Australia and Western Australia

Australian Capital Territory		New South Wales		Northern Territory		Queensland	
ACT Health Directorate	\$141m	Transport for NSW	\$2,335m	Department of Infrastructure, Planning and Logistics	\$385m	Department of Transport and Main Roads - Wide Bay/Burnett District	\$555m
Education Directorate	\$79m	NSW Procurement	\$2,057m	Department of Corporate and Information Services	\$186m	QBuild - South East Queensland	\$146m
Suburban Land Agency	\$63m	Sydney Metro	\$1,572m	Power and Water Corporation	\$76m	Department Of Education, Training and Employment	\$130m
Major Projects Canberra	\$62m	Infrastructure NSW	\$945m	Department of Health	\$34m	Queensland Health Indirects (non-medical)	\$95m
Transport Canberra and City Services	\$60m	TfNSW (Roads and Maritime Projects)	\$923m	Territory Families	\$26m	Building and Asset Services - South East Queensland	\$75m
Community Services Directorate	\$48m	Department of Education – SINSW	\$423m	Police, Fire and Emergency Services	\$12m	Queensland Rail Limited	\$71m
Chief Minister, Treasury and Economic Development Directorate	\$43m	Department of Education - Corporate	\$327m	Department of Local Government, Housing and Community Development	\$11m	QBuild - Far North Queensland	\$62m
Canberra Health Services	\$41m	Department of Communities and Justice	\$287m	Land Development Corporation	\$8m	QBuild	\$43m
Environment, Planning and Sustainable Development Directorate	\$19m	Insurance and Care NSW (icare)	\$218m	Department of Trade, Business and Innovation	\$4m	Building and Asset Services - Far North Queensland	\$43m
Justice and Community Safety Directorate	\$10m	Public Works Advisory	\$180m	Territory Generation	\$3m	Department of Transport and Main Roads - RoadTek	\$35m

South Australia		Tasmania		Victoria		Western Australia	
Department for Infrastructure and Transport	\$4,166m	Department of State Growth	\$322m	Department of Health & Human Services - Property & Asset Services	\$268m	Main Roads Western Australia	\$2,387m
SA Health	\$756m	Department of Health	\$60m	Department of Justice and Community Safety	\$190m	Public Transport Authority	\$653m
Strategic Procurement	\$303m	Department of Justice	\$42m	Department of Education & Training	\$183m	Department of Finance	\$383m
SA Water Corporation	\$176m	Department of Education	\$38m	Victorian School Building Authority	\$144m	Health Support Services	\$299m
SA Housing Authority	\$103m	Department of Treasury and Finance	\$33m	Development Victoria	\$139m	Department of Transport	\$194m
Attorney Generals Department	\$94m	Department of Primary Industries, Parks, Water and Environment	\$17m	Department of Transport	\$86m	Western Australia Police Force	\$93m
Department of Education	\$92m	Department of Communities Tasmania	\$13m	Department of Health & Human Services (DHHS)	\$75m	Department of the Premier and Cabinet	\$49m
South Australia Police	\$53m	Department of Police, Fire and Emergency Management	\$8m	Western Water	\$46m	Department of Justice	\$47m
Urban Renewal Authority (trading as Renewal SA)	\$39m	TasTAFE	\$6m	Department of Environment, Land, Water and Planning	\$44m	Department of Education	\$37m
Department of Treasury and Finance Corporate Services	\$30m	Macquarie Point Development Corporation	\$4m	Department of Treasury and Finance	\$22m	Department of Communities	\$37m

KEY SELLERS

But considerable variation in most successful bidders by state. No single contractor appears to have dominated the state contracting market.

Australian Capital Territory		New South Wales		Northern Territory		Queensland	
Joss Group	\$128m	ERM Power Retail Pty Ltd	\$2,064m	Halikos Pty Ltd	\$55m	Bielby BMD Joint Venture	\$451m
Epic	\$126m	Abergeldie Contractors Pty Ltd	\$1,471m	Northern Rise Village Services Pty Ltd	\$49m	ASI Solutions	\$100m
ActewAGL Retail	\$120m	John Holland Pty Ltd	\$1,155m	Greenspace Group Pty Ltd	\$27m	Kent Removals & Storage	\$95m
Group One Pty Ltd	\$68m	The Trustee for NRT CSW Unit Trust	\$689m	C & R Constructions Pty Ltd	\$24m	Hansen Yuncken	\$55m
Richard Crookes Constructions	\$56m	Lend Lease Building Pty Ltd	\$458m	Asbuild (NT) Pty Ltd	\$20m	Hutchinson Builders	\$50m
BMD	\$48m	Telstra Corporation Limited	\$320m	BMD Urban Pty Ltd	\$15m	Woollam Constructions	\$46m
Icon SI (AUST) Pty Ltd	\$39m	Buddi Ltd	\$265m	Norbuilt Pty Ltd	\$13m	C2CD Joint Venture	\$42m
Canberra Contractors Pty Ltd	\$38m	Next Rail (John Holland Pty Ltd and Jacobs Group (Australia) Pty Ltd)	\$262m	Aldebaran Contracting Pty Ltd	\$12m	RE & RE LYONS	\$30m
Guideline ACT Pty Ltd	\$36m	Transport for Tomorrow (Laing O'Rourke Australia and Kellogg Brown & Root)	\$250m	Allan King & Sons Construction Pty Ltd	\$12m	Civil Mining & Construction Pty Ltd	\$23m
Shape Australia Pty Limited	\$31m	Fulton Hogan Construction Pty Ltd	\$201m	Black Cat Civil Pty Ltd	\$12m	Kane Constructions (QLD) Pty Ltd	\$22m

South Australia		Tasmania		Victoria		Western Australia	
Torrens Transit Pty Ltd	\$1,594m	BlackCap Construction Pty Ltd	\$50m	CEOS Industrial Pty Ltd	\$150m	Central Earthmoving Company Pty Ltd	\$1,403m
Torrens Connect Pty Ltd	\$885m	Hazell Bros Group Pty Ltd	\$49m	Kane Constructions Pty Ltd	\$106m	Georgiou Group Pty Ltd	\$785m
Busways South Australia Pty Ltd	\$347m	Ford Motor Company	\$29m	Lendlease Building Contractors	\$99m	PureIV (PureIV Pty Ltd)	\$290m
Australian Medical Placements	\$304m	Aurora Energy Pty Ltd	\$27m	Data#3 Limited	\$59m	Coleman Rail (Coleman Rail Pty Ltd)	\$286m
CPB Contractors Pty Ltd	\$261m	Fujitsu Australia Ltd	\$27m	Acer Computer Australia Pty Ltd	\$47m	Broadspectrum (Broadspectrum (Australia) Pty Ltd)	\$118m
Microsoft Australia	\$236m	Mersey Bus & Coach Pty Ltd	\$23m	Plancost Australia Pty Ltd	\$34m	EK Civil (East Kimberley Civil and Hire PTY LTD)	\$114m
Australian Transit Enterprises Pty Ltd	\$182m	Tasmanian Redline Coaches Pty Ltd	\$22m	Laing O'Rourke Australia Construction Pty Ltd	\$33m	Downer EDi Works	\$105m
Lend Lease Building Contractors Pty Ltd	\$166m	Tasmanian Tours & Travel (Fleet) Pty Ltd	\$22m	Max Bright & Sons Pty Ltd	\$30m	ADCO Constructions Pty Ltd	\$84m
Mossop Construction + Interiors	\$154m	Mersey Bus & Coach Service Pty Ltd	\$19m	Cotter Reid Architects Pty Ltd	\$24m	Airbus Australia Pacific Limited (Airbus Australia Pacific)	\$75m
3-D Matrix Medical Technology	\$146m	Fairbrother Pty Ltd	\$15m	JLL	\$22m	Firm Construction Pty Ltd	\$55m