Actuarial advice on recommendations from the 2019 Statutory Review of the Construction Training Fund

Construction Training Fund

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finity

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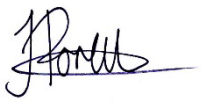
Dear Kylie

Actuarial advice on recommendations from the 2019 Statutory Review of the Construction Training Fund

We are pleased to enclose our report that outlines our actuarial and economic advice relating to recommendations from the 2019 Statutory Review of the Construction Training Fund.

We look forward to discussing its contents with you.

Yours sincerely



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1 Background and scope

The objective of the Building and Construction Industry Training Board, operating as the Construction Training Fund (CTF) is to assist Western Australia's building and construction industry in meeting the demand for skilled workers. One of the key functions of the CTF is the collection of a training levy on the building and construction industry which is used to fund training grants and support WA's building and construction industry, assisting to maintain productivity and a supply of skilled workers.

The levy is calculated at 0.2% of the estimated value of construction, and applies to all residential, commercial, civil engineering and resources works in WA greater than $20,000, noting that a concessional expenditure threshold of $10 million applies to operational activities in the resources sector. The levy is payable at project commencement. Adjustments and refunds may apply if the final value of the project has varied from the initial estimate by more than $25,000, including if works are cancelled.

In the previous Statutory Review of the Building and Construction Training Fund and Levy Collection Act 1990, published in October 2019 (the previous Statutory Review), a number of recommendations were made in relation to the determination of the levy amount.

CTF has engaged Finity to provide advice and information in relation to the following recommendations from the previous Statutory Review:

- Increase threshold at which the levy applies (Recommendation 12)

  Increase the following thresholds in line with an appropriate indexation factor (such as the Consumer Price Index or Construction Cost Index) and introduce an annual indexation process to adjust:

  - The threshold at which the Levy applies, and

  - The threshold for application of adjustments to the value of construction projects on completion.

- Review of concessional expenditure threshold (Recommendation 13)

  Review the concessional expenditure threshold of $10 million for alterations and additions to resources facilities prior to the next statutory review to ensure it is operating as intended.

- Consider a differential levy for the resources sector (Recommendation 21)

  Consider the application of a threshold for the application of the levy to projects over $500 million, to be consistent with the threshold incorporated in the Australian Jobs Act 2013. Apply a differential rate of 0.1 per cent to Resources Sector Projects, and include the application of a $5 billion cap to the value of projects to which the levy applies.

- Introduce a capital value cap (Recommendation 10)

  Consider introducing a cap on the capital value of any single building and construction project for the purposes of calculating the Levy to prevent the policy intent of the Levy from being undermined by large capital value projects, where the capital value of the project is driven solely by the high value of imported capital equipment.

This report has been prepared to assist CTF in investigating the above recommendations. It is confidential to CTF and is not to be relied on for any other purpose. It is not to be provided, in whole or in part, to anyone beyond CTF without the written permission of Finity Consulting.

2 Data

2.1 Data received

We have primarily relied on the following information for this analysis:

- Historical and current construction activity and levy amount received relating to in-scope projects from January 2020 to 2023. The data provided included the construction sector, estimated and actual capital value, levy collected, commencement and end date of the project.
- CTF's 5 year forecast as at 6 September 2023, which included construction sector economic forecasts from ACIF, BIS Oxford and the ABS.
- Information on CTF's historical financial performance, including levy collected, grants paid, and administrative costs associated with levy collection.

We were also provided the following information, which provided background and context:

- The Statutory Review reports from 2002, 2008, 2014 and 2019.
- CTF's Operational Plan for 2023-24.
- CTF's large projects list as at 3 May 2024.

2.2 Limitations of data

We note the following limitations on the data provided:

- Our analysis is based on currently available data for years FY2021-22, FY2022-23 and FY2023-24 (part year) at the level of detail provided in the actuarial report dataset.
- We relied on the accuracy and completeness of this data when conducting our analysis and drawing our conclusions.
- More detailed analysis could be conducted if more detailed and granular data on the structure of projects was provided, e.g. an allocation of project value between wage costs, value of capital goods, imported capital goods or equipment, and other operational costs.

2.3 Engagement with CTF

As part of the preparation of this advice we have engaged extensively with CTF staff to understand and interpret the data provided. This engagement provided valuable insights into the data and the related context and we thank the team for making this time available to us.

3 Construction activity and levy collection forecast

In order to provide advice on the four key recommendations from the previous Statutory Review that are considered in this report, Finity has developed a forecast of future construction activity and levy collection in WA over the next five years. Initially, this forecast assumes that there are no changes to existing levy collection parameters. In this section we discuss the approach, assumptions and outputs of this forecasting model.

Using these forecasts, Finity has been able to test the potential financial impacts of various forecast parameters, should the recommendations from the previous Statutory Review be implemented, and/or how various policy settings relating to the levy collection might be adjusted following these changes. Our findings relating to the four key recommendations are discussed in Sections 5 to 8. In the remainder of this section we detail the approach and findings of this five year forecast.

3.1 Approach to construction activity and levy forecast

Finity has reviewed a number of data sources in developing our forecasting model, summarised in Table 3.1.

Table 3.1 – Data sources considered for the forecast model

Data considered	Comments/observations
CTF's historical construction activity data	Experience can be volatile, and impacted by CTF initiatives (e.g. auditing of businesses who have not paid required levies).
Consumer Price Index (CPI)	CPI is a broad measure of inflation that tracks the price of a weighted average market basket of consumer goods and services purchased by households over time.
Producer Price Index (PPI)	PPI measures specific changes in sales prices received by businesses for their outputs over time. We consider WA specific construction PPIs and forecasts.
Australian Bureau of Statistics (ABS) data	The ABS measures various construction industry activities in WA including residential, non-residential (commercial, industrial) and heavy industry for both private and public sector construction.
BIS Oxford	BIS Oxford forecasts residential construction to weaken over the next two years, before recovering strongly. Civil and resources sector construction activity are forecast to grow strongly over the forecast horizon.
Australian Construction Industry Forum (ACIF)	ACIF forecasts residential construction to grow strongly over the forecast horizon. Resource sector forecasts suggest a reduction in construction activity.
CTF's forecast used in its FY2023/24 budget	Based on an average of BIS Oxford Economics and ACIF forecasts with specific adjustment made to more closely resemble previous performance as per ABS data. As the BIS Oxford forecasts are based in 2019/20 values and the ACIF forecasts on 2020/21 values, CPI has been applied to adjust the forecasts to current values.

Finity's selected forecasts are based on a combination of ABS, ACIF and BIS Oxford forecasts. This approach provides a consensus view between the forecasts already used by CTF as well as the additional detail contained in the ABS datasets, which were considered by CTF but not used in forecasting. To bring the ACIF and BIS Oxford forecasts to current values, we have applied PPI; in our view PPI is a more appropriate measure of inflation than CPI (used in CTF budget forecasts) for this purpose.

CTF collects levies on residential, commercial, civil engineering and resources works in WA greater than $20,000, with a concessional expenditure threshold of $10 million applying to operational activities in the resources sector. This means that CTF's historical data reflects only a subset of the full construction market. Table 3.2 shows how the historical project values in CTF's data compare to consensus construction values captured in ABS, ACIF and BIS Oxford data.

Table 3.2 – CTF Market capture

	Average annual project values in the 6 years to 30 June 2023		Market Capture
	CTF historical data	Consensus data	
	$b	$b	
Residential	6.2	6.9	90%
Commercial	5.4	4.4	124%
Civil	3.5	7.3	48%
Resources[1]	6.9	12.3	56%

[1]Reflects only the 5 years of data to 30 June 2023, as resources projects were first leviable from 2018/19

Based on the consensus view of construction activity between the ABS, ACIF and BIS Oxford, the CTF collects levies on 90% of construction projects (by capital value) in the Residential sector, with most of the difference expected to be driven by levy exemptions; we understand that there is generally high compliance with levy payment in the Residential sector.

The market capture on Commercial projects is over 100%, likely due to differences in the definition of 'Commercial' projects between CTF and the industry data series and/or differences in timing of data capture. We understand there is also good compliance in the Commercial sector.

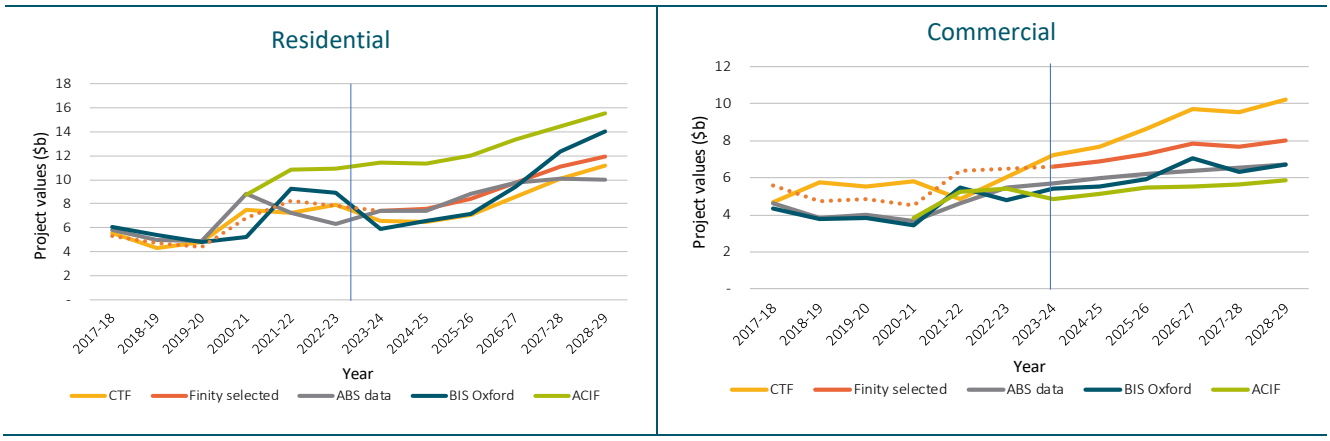
Only around 50% of the value of projects in the Civil and Resources sectors pay a levy to the CTF. Some of this is due to levy exemptions, however we understand that there is material under-reporting of leviable projects in these sectors. The CTF has conducted initiatives over recent years to improve compliance with levy payments in these sectors.

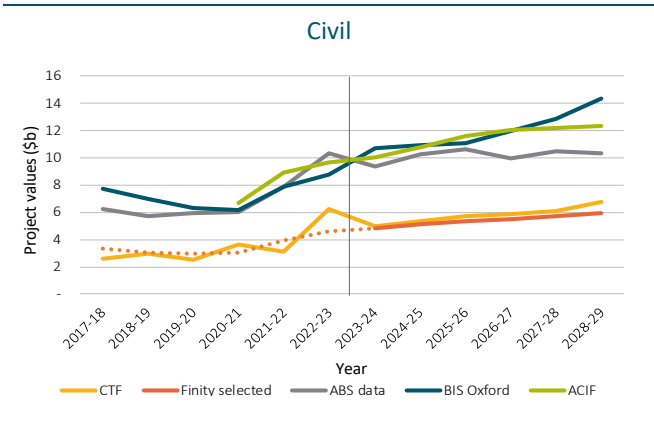
3.2 Sector forecasts

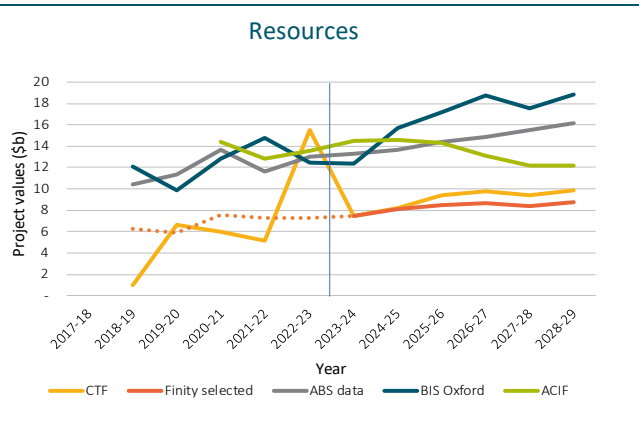
Figure 3.1 shows the historical and forecast capital value for the Residential, Commercial, Civil and Resources sectors in WA, from each of the data sources discussed in Section 3.1.

The CTF and Finity selected forecasts reflect the capital value of leviable projects only, based on the market capture shown in Table 3.2. The ABS, BIS Oxford and ACIF data series reflect the full market.

Figure 3.1 – Historical and forecast project values by sector







We observe that the historical capital value of projects in scope of the levy varies over time. In particular, there was a significant increase in the levy amount collected in FY23 for the resources sector, due to compliance enforcement activities conducted by the CTF.

Table 3.3 summarises the historical and selected growth rate in the forecast model by sector.

Table 3.3 – Selected levy growth rates

	Historical project value growth rate (p.a.)					Projected project value growth rate (p.a.)						Average growth (p.a.)	
% Growth	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	Historical	Projected
Residential	-22%	11%	56%	-3%	9%	-6%	3%	11%	16%	13%	7%	7%	10%
Commercial	23%	-4%	5%	-16%	24%	10%	4%	6%	8%	-2%	4%	5%	4%
Civil	14%	-15%	46%	-15%	102%	-22%	6%	4%	2%	5%	4%	19%	4%
Resources			-9%	-14%	202%	-52%	10%	5%	2%	-3%	4%	100%	3%

Substantial increases in demand for residential housing experienced in WA (and the rest of Australia) driven by changes in demographics as well as recent increases in total population continue to extend the need for new residential construction. We expect that the construction industry will respond to the challenge appropriately with increased residential housing construction in FY24 and again during FY26-28 as these pressures continue to exert their impact on the industry.

The impacts of the post-COVID economy, resulting in the higher inflationary environment and increased proliferation of working from home arrangements have meant many providers of commercial space are finding it increasingly difficult to reach the yields on rental agreements to compensate for their costs in commercial real estate sector. This has reduced demand for commercial construction activities which is expected to remain low in the foreseeable future and even contract in FY28.

Civil construction is expected to remain relatively stable over the forecast horizon due to the majority of projects requiring long periods of delivery. In addition, long term infrastructure projects that dominate this space are expected to continue as the Federal and WA governments continue to fund these projects over the long term.

The resources industry is subject to impacts of business cycles which closely follows prices of commodities on the world markets. It is expected that the current pace of development and therefore construction demand in the sector will decline marginally over the next five years towards negative growth in FY28.

Table 3.4 summarises the historical and projected levy amounts by sector.

Table 3.4 – Projected levy forecast

	Levy amount ($m)					Projected levy forecast ($m)					
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Residential	8.7	9.6	15.0	14.5	15.8	14.8	15.2	16.8	19.6	22.2	23.8
Commercial	11.5	11.0	11.6	9.7	12.0	13.2	13.8	14.6	15.7	15.4	16.0
Civil	5.9	5.0	7.3	6.2	12.5	9.7	10.3	10.7	11.0	11.4	11.9
Resources	2.0	13.2	12.0	10.3	31.1	14.9	16.3	17.0	17.3	16.8	17.5
Total	28.0	38.8	45.9	40.7	71.4	52.6	55.6	59.2	63.6	65.8	69.2

4 Increase threshold at which the Levy applies (Recommendation 12)

Increase threshold at which the Levy applies (Recommendation 12)

Increase the following thresholds in line with an appropriate indexation factor (such as the Consumer Price Index or Construction Cost Index) and introduce an annual indexation process to adjust:
- The threshold at which the Levy applies, and
- The threshold for application of adjustments to the value of construction projects on completion.

4.1 Background

Currently the levy applies to all projects with capital value above $20,000. This $20,000 threshold was set with the intent of exempting small projects from paying the levy. In addition, should the final value upon completion of a project vary by more than $25,000 from the initial estimate, a levy adjustment may also be required.

The initial levy threshold in 1991/92, when the CTF was established, was $6,000. This subsequently increased to $10,000 in 1994 and $20,000 in 1999. In the 25 years since this time, the thresholds have not been indexed, which means that as the value of construction projects has grown over time due to the impacts of economic inflation, more projects are being brought into scope for levy collection. All else equal, this means that levy collection may be growing substantially faster than the training requirements of the industry and that smaller projects may no longer be exempt from accrual of the levy in contradiction with the initial intent of the threshold.

We observe that had the $20,000 initial levy threshold been indexed since 1999 by the Producer Price Index[1] (PPI), the threshold today would be around $40,000. We also observe that the threshold increases in 1994 and 1999 imply an annual indexation of around 15% p.a.; had this indexation continued to apply then the threshold would be $160,000 today.

Benchmarking to other state funding authorities suggests that the WA threshold is on the lower end. The $20,000 levy threshold in WA compares to thresholds of $10,000 (ACT), $20,000 (TAS), $40,000 (SA), and $150,000 (QLD).

We note that the administrative burden of levy collection on small projects may exceed the actual levy amount collected (for example, the levy currently collected from a $20,000 project is $40). Administrative costs are incurred by both the project owners, as well as the CTF (who may need to provide assistance or follow-up).

4.2 Approach

In order to determine the financial impact of increasing the initial and adjustment levy thresholds, we undertook the following analysis:

1. Investigate the proportion of the historical levy amount that would have been foregone had the levy thresholds been higher. We considered the distribution of levy amounts historically collected by the CTF using the project-level data provided, by sector. Project values were inflated to the middle of period between the current and next Statutory Review expected to occur in 2029 (i.e. to 2027), using the Producer Price Index (PPI), so that any recommendations from this analysis remain appropriate until the next Statutory Review.
2. Estimate the marginal cost and benefit of collecting levies at various thresholds, by comparing the foregone levy from (1) with the expected savings in CTF administrative costs. We understand from the

[1] Based on the Producer Price Index for inputs to the House construction industry for Perth, Table 18, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#data-downloads

CTF that the administrative effort for levy collection does not vary by the size of the project, but rather by sector, with the Resources and Civil sectors requiring more assistance than the Residential and Commercial sectors; we have not allowed for these differences in our analysis. While our analysis does not quantify the expected savings in administrative costs for project owners, we suggest that these potential savings should be qualitatively considered in any policy decision.

Our analysis assumes that the distribution of historical projects is representative of the distribution of future projects, after adjusting for the forecast growth discussed in Section 3.2.

We note that projects where the initial values were below $20k are not required to be submitted to the CTF, and thus we cannot observe from the data how many projects were below the $20k threshold at the point when the threshold was initially set. Similarly, there is no requirement to report the actual value of a project upon completion if the value differs by less than the $25k.

For the levy adjustment analysis, we have limited our analysis to projects which had an estimated completion date before December 2023, and assume these projects have been completed and that any levy adjustments have already been made.

4.3 Annual indexation vs one-off increase

We considered the provision of an appropriate index (e.g. PPI) to annually increase the level of the initial and adjustment levy thresholds. However, following discussions with CTF we reached a conclusion that the administrative burden (for both CTF and project owners) of a threshold that increases annually would be onerous.

Accordingly, we recommend that any increase in the levy threshold should be selected at a level that is expected to remain appropriate for the next 5 years i.e. until the next Statutory Review. The below analysis is therefore conducted as at 30 June 2027, the mid-point between the current and the next Statutory Review period.

4.4 Initial levy thresholds

Figure 5.1 shows the distribution of levy amounts that would have been foregone had alternative levy thresholds applied historically. The proportion of projects that become exempt from the levy is also shown.

Figure 5.1 – Distribution of levy amount foregone[1]

	$20k	$40k	$60k	$80k	$100k	$150k	$200k	$250k	$500k	$1m	$2m	$3m	$4m	$5m	$10m	All
Levy amount	0%	1%	1%	1%	2%	2%	3%	5%	18%	25%	30%	32%	34%	35%	39%	100%
No. Projects	2%	17%	26%	30%	33%	37%	41%	48%	84%	94%	97%	98%	99%	99%	99%	100%

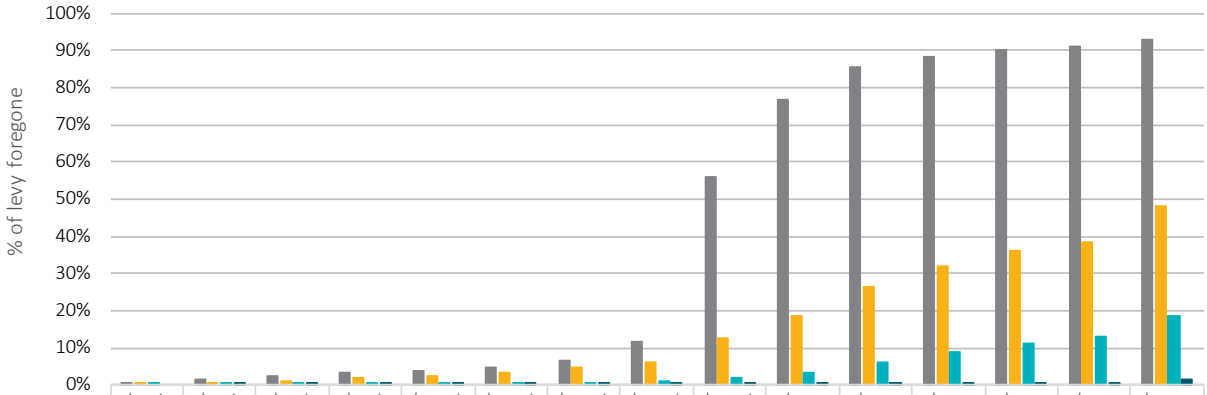
[1]The distributions include all construction projects from January 2020 to December 2023 that were subject to the CTF levy. Levy amounts are inflated to 30 June 2027, the mid-point between now and the next statutory review. Levy amounts reflect actual amounts paid, where available, otherwise the estimated amount.

Small projects contribute minimally to the levy amount collected, but comprise a material proportion of projects. For illustration, we highlight that:

- Adopting a threshold of $100k would result in2% of the total levy amount being foregone, but exempt 33% of projects by number. A $100k threshold reflects an annual indexation of 12%.
- Adopting a threshold of $250k would result in 5% of the total levy amount being foregone, but exempt 48% of projects by number. A $250k threshold reflects an annual indexation of 20%.

Figure 5.2 shows the distribution of levy amounts foregone and projects exempted at various levy thresholds by sector.

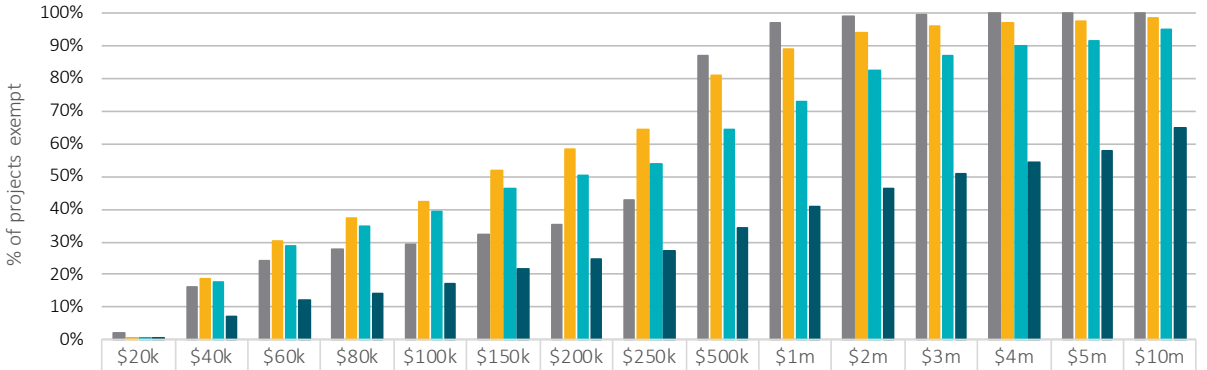
Figure 5.2 – Distribution of levy amounts foregone, by levy threshold, by sector



	$20k	$40k	$60k	$80k	$100k	$150k	$200k	$250k	$500k	$1m	$2m	$3m	$4m	$5m	$10m
Residential	0%	1%	3%	3%	4%	5%	6%	12%	56%	77%	85%	89%	90%	91%	93%
Commercial	0%	1%	1%	2%	2%	4%	5%	6%	13%	19%	26%	32%	36%	39%	48%
Civil	0%	0%	0%	0%	0%	1%	1%	1%	2%	3%	6%	9%	11%	13%	19%
Resources	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%

Levy foregone by threshold

Figure 5.3 – Distribution of projects exempt from levy collection, by levy threshold, by sector



	$20k	$40k	$60k	$80k	$100k	$150k	$200k	$250k	$500k	$1m	$2m	$3m	$4m	$5m	$10m
Residential	2%	16%	24%	28%	29%	32%	36%	43%	87%	97%	99%	100%	100%	100%	100%
Commercial	1%	19%	30%	37%	42%	52%	58%	64%	81%	89%	94%	96%	97%	97%	99%
Civil	0%	18%	29%	35%	40%	46%	50%	54%	64%	73%	82%	87%	90%	91%	95%
Resources	0%	7%	12%	14%	17%	22%	25%	27%	34%	41%	47%	51%	54%	58%	65%

Projects exempt by threshold

Changes in the levy threshold will have the greatest impact on the Residential sector in terms of levy foregone, with increases in the threshold to $100k and $250k resulting in a 4% and 12% levy reduction respectively. The number of residential projects exempt from levy collection at these thresholds is 29% and 43%.

The Commercial sector is the most impacted in terms of the number of projects exempted for intermediate increases in the levy threshold. At increased levy thresholds of $100k and $250k the number of commercial projects exempt is 42% and 64% respectively (with associated reduction in levy collection of 2% and 6%)

Increases in the levy thresholds to these levels will have smaller impacts on the Civil and Resources sector levy amounts, though the proportion of projects exempt from the levy is still expected to increase materially.

4.5 Adjustment levy thresholds

Table 5.1 shows distribution of projects where the capital value varied from the initial estimate.

Table 5.1 – Distribution of capital value variations

Adjustment greater than	Residential	Commercial	Civil	Resources	All
$25k	3%	5%	15%	13%	4%
$50k	1%	4%	14%	11%	2%
$100k	1%	3%	11%	10%	2%
$120k	1%	2%	10%	10%	1%
$150k	0%	2%	10%	9%	1%
$200k	0%	2%	9%	9%	1%
$250k	0%	1%	8%	9%	1%
>$250k	0%	0%	0%	0%	0%

The current adjustment levy threshold captures the majority of projects, with only 4% of projects varying from the initial estimate of capital value by more than $25k (and therefore being required to pay an adjustment levy). This differs by sector, with less than 5% of Residential and Commercial sector projects (which tend to be smaller in overall capital value) varying by more than $25k, but up to 15% of Civil and Resources projects.

Increasing the threshold to $100k would mean that only 2% of projects would be required to pay an adjustment levy (i.e. around half the current number of projects), noting that the proportion of Civil and Resources sector projects still required to pay an adjustment levy is higher, at around 10%.

Table 5.2 shows the potential foregone levy over the 4 years to 31 December 2023, had alternate adjustment levy thresholds applied. The foregone levy amounts are inflated to 30 June 2027.

Table 5.2 – Potential foregone levy over the 4 years to 31 December 2023 ($m)[1]

Levy Adjustment Threshold	Commercial	Engineering	Housing	Resources	Total
25,000	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
50,000	19 (0.1%)	0 (0.0%)	50 (0.1%)	0 (0.0%)	69 (0.1%)
75,000	44 (0.1%)	5 (0.0%)	114 (0.2%)	0 (0.0%)	163 (0.1%)
100,000	55 (0.1%)	6 (0.0%)	130 (0.3%)	0 (0.0%)	190 (0.2%)
150,000	65 (0.2%)	8 (0.0%)	147 (0.3%)	0 (0.0%)	219 (0.2%)
200,000	88 (0.2%)	12 (0.1%)	174 (0.4%)	0 (0.0%)	275 (0.2%)
250,000	105 (0.3%)	16 (0.1%)	187 (0.4%)	0 (0.0%)	307 (0.3%)
All adjustments	1,670 (4.5%)	1,331 (7.8%)	298 (0.6%)	541 (2.6%)	3,840 (3.2%)

[1]The distributions include all construction projects from January 2020 to December 2023 that had an estimated completion date prior to 31 December 2023, and were not cancelled. Levy amounts are inflated to 30 June 2027, the mid-point between now and the next statutory review.

If the adjustment levy threshold applying over the 4 years to 31 December 2023 had been $100k, then the total levy amount collected over this period would have reduced by $0.2m, or 0.2%.

4.6 Marginal cost and benefit analysis

Levy collection incurs an administrative burden on both the CTF and the project owners. Table 5.3 compares the marginal cost and benefit of adopting $100k and $250k thresholds for both the initial levy and adjustment levy, focussing on CTF administration costs (which can be more easily estimated).

Table 5.3 – CTF administration cost

	FY21	FY22	FY23
Current thresholds			
No. projects	51,210	42,428	37,496
Administrative expense ($m)	0.6	0.6	0.7
Administrative expense per project ($)	12	14	19
No. FTEs	*4.2*	*4.2*	*4.9*
$100k Thresholds			
No. projects	30,142	22,536	19,330
Administrative expense ($m)	0.4	0.3	0.4
Potential administrative savings ($m)	0.2	0.3	0.3
Foregone levy ($m)	(0.8)	(0.7)	(1.0)
Net impact ($m)	(0.6)	(0.4)	(0.7)
Potential additional FTE capacity	*1.7*	*2.0*	*2.4*
$250k Thresholds			
No. projects	14,510	13,713	14,412
Administrative expense ($m)	0.2	0.2	0.3
Potential administrative savings ($m)	0.4	0.4	0.4
Foregone levy ($m)	(6.5)	(3.1)	(2.8)
Net impact ($m)	(6.0)	(2.7)	(2.4)
Potential additional FTE capacity	*3.0*	*2.8*	*3.0*

In FY23, we estimate that the CTF processed around 37,500 projects[2]. CTF has indicated that this incurred around $0.7m of administrative cost, or $19 per project across 4.9 full-time equivalent (FTE) employees.

We estimate that had a project threshold of $100k, and an adjustment threshold of $100k applied, this would have reduced the number of projects processed by almost half to 19,000 projects. This would also have resulted in foregone levy of $1.0m but administrative cost savings of $0.3m, or 2.4 FTEs.

Under initial and adjustment levy thresholds of $250k, the foregone levy of $2.8m compares to potential administrative savings of $0.4m across 3.0 FTEs.

We observe that while the equivalent financial savings are minimal, reducing the administrative burden could free up CTF staff to focus on other areas of the business such as ensuring compliance in the civil/resources sectors (which may actually serve to increase levy collection). As noted earlier, while we have not quantified the

[2] This is the number of projects that were estimated to commence in FY23, which may differ from the number of projects from which a levy was collected as reported in the CTF annual report, due to timing differences.

administrative savings for project owners, we suggest that these potential savings should be qualitatively considered in any policy decision.

4.7 Impact analysis

We have estimated the foregone levy in future years under the alternative threshold levels of $100k and $250k, assuming that the distribution of projects is unchanged (other than inflating by PPI) from the historical distribution of projects in the 4 years to 31 December 2023. This is summarised in Table 5.4 below.

Table 5.4 – Impact analysis of alternative capital value thresholds[1, 2]

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Levy Foregone **$100k** Threshold ($m)	0.9	0.9	1.0	1.0	1.1	1.2	1.2
Levy Foregone **$100k** Threshold + **$100k** Adjustment threshold ($m)	1.0	1.0	1.0	1.1	1.2	1.2	1.3
Est. Projects Exempt (**$100k** Threshold Only)	10,976 (33%)	11,134 (34%)	11,173 (33%)	11,673 (33%)	12,852 (33%)	13,495 (32%)	13,876 (32%)
Est. Projects Exempt (**$100k** Adjustment Threshold Only)	786 (2%)	771 (2%)	781 (2%)	821 (2%)	896 (2%)	944 (2%)	971 (2%)
Levy Foregone **$250k** Threshold ($m)	3.2	3.4	3.3	3.2	3.4	3.4	3.3
Levy Foregone **$250k** Threshold + **$250k** Adjustment threshold ($m)	3.3	3.5	3.4	3.3	3.5	3.5	3.4
Est. Projects Exempt (**$250k** Threshold Only)	17,006 (51%)	17,596 (53%)	17,364 (52%)	17,716 (50%)	19,001 (48%)	19,518 (46%)	19,698 (45%)
Est. Projects Exempt (**$250k** Adjustment Threshold Only)	962 (3%)	941 (3%)	952 (3%)	1,004 (3%)	1,104 (3%)	1,159 (3%)	1,197 (3%)

[1]Values in this table are nominal

[2]Note that the levy foregone for FY23 under the $250k threshold scenario reflect the distribution of the full 3 years of experience, inflated to FY23 values; this is different to the levy foregone for FY23 under the $250k threshold scenario shown in Table 5.3 above, which reflects the actual levy collected from project that commenced in FY23.

We observe that increasing the levy thresholds will not materially impact on the levy collected, with a $100k threshold applying to initial and adjustment levies resulting in around $1m (2%) of foregone levy per year. Increasing the thresholds to $250k results in around $3m (5%) of foregone levy per year.

However, the thresholds will reduce the number of projects required to pay a levy by 30-50%. This represents a significant easing of administrative burden particularly to small businesses, and will increase capacity for CTF staff.

5 Review of concessional expenditure threshold (Recommendation 13)

Recommendation 13: Review of concessional expenditure threshold

Review the concessional expenditure threshold of $10 million for alterations and additions to resources facilities prior to the next statutory review to ensure it is operating as intended.

5.1 Background

In 2018, prior to the previous Statutory Review, the exemption of the resources industry from being required to make Levy contributions was removed so that the resources sector would be able to contribute to the training of persons in the building and construction industry.

We understand that there is a relatively clear delineation between activities in the resources sector that relate to construction of a facility (which attract a levy payment), and activities that are operational (and should not attract a levy payment). The CTF's approach to ensuring levies are only imposed on 'eligible' activities is to apply a concessional expenditure threshold on 'minor works' of up to $10 million, for the resources industry, to capture activities which are operational in nature.

5.2 Approach

We reviewed the project data provided by the CTF, and conducted text analysis on the 'Description of Work' field to identify 'minor works' activities relating to alteration/ renovation, replacement of a closed facility and relocation.

We considered projects where the capital value exceeded $10m, and conducted impact analysis on the identified projects to quantify the expected impact if the concessional expenditure threshold was increased. Our analysis assumes that the distribution of historical projects is representative of the distribution of future projects, after adjusting for the forecast growth discussed in Section 3.2.

5.3 Analysis of 'minor works' activities

Table 6.1 shows the 'minor works' resources projects identified in the historical projects data.

Table 6.1 – Minor works projects

	Non-exempt activities	Exempt activities, but value >$10m	Total
Number of projects	197	9	206
Capital value ($b)	40.3	0.3	40.6
% of projects	96%	4%	
% of capital value	99%	1%	

Over the 4 years to 31 December 2023, there were 206 resources projects paying a levy with total capital value of $40.6bn, of which 9 projects were 'minor works' activities valued over $10m. These 9 projects had total capital value of $300m.

Table 6.2 shows the impact of increasing the concessional expenditure threshold on the levy collected over the 4 years to 31 December 2023.

Table 6.2 – Levy foregone at various concessional expenditure thresholds[1]

	Additional projects exempt over the 4 years to Dec23		
Concessional expenditure threshold ($m)	Number	Capital value ($m)	Levy foregone ($m)
15	2	24.1	0.0
20	4	62.7	0.1
30	6	109.6	0.2
50	7	142.4	0.3
100	8	202.9	0.4
350	10	623.0	1.2

[1]Values in this table are nominal

Increasing the concessional expenditure threshold to $20m would result in 6 of these 9 projects becoming exempt; this would have resulted in foregone levies of $0.1m or 0.2% over the 4 year period. Greater increases in the concessional expenditure threshold would have greater impacts, as shown in the table above.

5.4 Analysis of operational and maintenance activities

We understand that all operational/maintenance activities are exempt from levy collection. However, our text analysis identified a number of projects that appear to relate to projects that are operational in nature. The keywords considered in the text analysis are shown in Table 6.3.

Table 6.3 – Text analysis keywords used to identify operational/maintenance activities

Exploration	structure associated with a resources operation	decommission
Drilling	waste	repair
road	excavation	maintenance
track	back-filling	rectif
water	soil	temp
storage	remediation	village
treatment	restoration	mitigation
refurb	rehabilitation	accommodation
disposal	closure	management
refurb	operat	

Table 6.4 shows our classification of the historical resources sector projects.

Table 6.4 – Resources sector projects

	Capital value <$10m		Capital value >$10m			
	Operational activities	Other	Minor Works	Operational activities	Other (non-exempt)	Total
Number of projects	72	326	9	52	145	604
Capital value ($b)	0.2	0.5	0.3	1.9	38.4	41.2
Levy amount ($m)	0.4	0.9	0.6	3.8	76.8	82.5
% of projects	12%	54%	1%	9%	24%	
% of capital value/ levy amount	0%	1%	1%	5%	93%	

Our text analysis identified a material proportion (21%) of levied resources sector projects appear to relate to projects that may be operational in nature. The average cost of these projects are smaller, and comprise only 5% of total capital value. Over the 4 years of data, this is $4.2m of additional levy collected.

We understand that for some resources projects, the CTF may engage with organisations to understand the scope of the project. This suggests that for projects the CTF has engaged with, the levy is correctly paid, and the "Description of Work" field may not accurately capture the nature of the construction.

For projects the CTF has not engaged with, there may be some projects/companies which are not taking advantage of the exemptions. This could be due to the additional effort/cost in identifying such exemptions exceeding the financial benefit, or it may be difficult to separate the operational maintenance component separately. There may also be a lack of awareness or understanding of which activities are exempt.

If all operational projects where the capital value was below $10m were actually 'minor works', and should have been exempt from the levy, then CTF would have over-collected levy amounts of $0.4m on 72 projects over the last 4 years.

Table 6.5 shows the impact of increasing the concessional expenditure threshold on the levy collected over the 4 years to 31 December 2023, assuming all operational projects below $10m were actually 'minor works'.

Table 6.5 – Levy foregone at various concessional expenditure thresholds[1]

	Additional projects exempt over the 4 years to Dec23		
Concessional expenditure threshold ($m)	Number	Capital value ($m)	Levy foregone ($m)
15	90	424.2	0.8
20	43	619.9	1.2
30	52	855.0	1.7
50	59	1,141.8	2.3
100	63	1,396.2	2.8
350	66	2,060.8	4.1

If CTF was to increase the concessional expenditure threshold to $20m, this would have foregone $1.2m (1.5%) of levy for 43 projects over the last 4 years.

Due to the potential limitations of the "Description of Work" field relied upon in forming the conclusions presented in this section, we note that the estimates presented in this section should be considered cautiously.

5.5 Impact analysis

We have estimated the foregone levy in future years if the concessional expenditure threshold increased to $20m. We have shown the impact assuming that all operational activities have been appropriately classified, as well as the impact if all operational activities below $10m were actually 'minor works'. The analysis is shown in Table 6.6.

Table 6.6 – Impact analysis of $20m concessional expenditure threshold for Resources projects[1]

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Levy foregone from $20m concessional expenditure threshold on:							
Identified 'Minor Works' projects ($k)	47	23	25	26	26	25	27
Any 'Minor Works' or 'Operational/Maintenance' projects ($k)	467	224	245	256	260	252	263

[1]Values in this table are nominal

Increasing the concessional expenditure threshold for 'minor works' to $20m will minimally impact the levy amounts collected by CTF – the foregone levy ranges from $30k to $300k per year, depending on the extent of misclassification between 'minor works' and 'operational activities'.

6 Recommendation 21 – Resources integration

Recommendation 21: Resources integration

Consider the application of a threshold for the application of the levy to projects over $500 million, to be consistent with the threshold incorporated in the Australian Jobs Act 2013. Apply a differential rate of 0.1 per cent to Resources Sector Projects, and include the application of a $5 billion cap to the value of projects to which the levy applies.

6.1 Background

The Previous Review recommended that issues and challenges relating to the integration of the resources sector be carried forward to the next review, once adequate time had elapsed since the sector's inclusion into the levy.

The Resources sector has raised the following for consideration:

- Resources projects with capital value over $500m should be subject to a 0.1% marginal levy rate
- The capital value should be subject to a $5 billion cap.

6.2 Approach

We have identified all resource sector projects with capital value above $500m. So that this analysis remains relevant until the next Statutory Review period, we have included projects which are expected to exceed $500m when inflated to the end of this period, i.e. in FY2028/29 values.

Our approach is as follows:

1. We estimate the levy contribution of these large-scale resource projects, assuming that the 0.2% levy rate applies.
2. We estimate the levy amount foregone if a 0.1% marginal levy was applied for project values above $500m. That is, for the portion of these projects below $500m, a 0.2% levy rate applied. For the capital value amount above the $500m threshold, a 0.1% levy rate applies.
3. We estimate the levy value foregone if a $5b capital value cap was applied.

Our analysis assumes that the distribution of historical projects is representative of the distribution of future projects, after adjusting for the forecast growth discussed in Section 3.2. Due to the small number of large-scale projects in CTF's historical data, the volatility around the estimates provided are particularly elevated.

6.3 Analysis

Table 7.1 shows the large-scale resources projects identified for our analysis.

Table 7.1 – Resource projects historically/forecasted to be above $500m ($FY29)

Project Title	Project Value ($m)	Project Value ($FY29m)	Levy Collected ($m)	Levy Value Removed with 0.1% ($m)	Levy Value Removed with $5b Cap ($m)	Levy Value removed with both ($m)
CG3	638	656	1.3	0.1	0.0	0.1
Eneabba Rare Earth Refinery Projec	870	886	1.7	0.4	0.0	0.4
Gorgon Stage 2	1,028	1,209	2.1	0.5	0.0	0.5
Jansz-Io Compression (JIC) Project	2,976	3,029	6.0	2.5	0.0	2.5
Julimar Brunello Phase 2	493	580	1.0	0.0	0.0	0.0
Kemerton Expansion Project 3&4	2,331	2,372	4.7	1.8	0.0	1.8
Kens Bore P2 (Mine Co)	587	597	1.2	0.1	0.0	0.1
Lambert Deep & South Goodwyn	451	530	0.9	0.0	0.0	0.0
Onslow Infra P3	767	781	1.5	0.3	0.0	0.3
P1000 Expansion Project	479	508	1.0	0.0	0.0	0.0
Pilbara Generation Project (PGP)	557	655	1.1	0.1	0.0	0.1
Pluto Train 2 Project	5,297	5,446	10.6	4.8	0.3	5.1
Project Ceres	4,444	4,707	8.9	3.9	0.0	3.9
Scarborough Development	2,836	2,886	5.7	2.3	0.0	2.3
West Musgrave Project	1,513	1,540	3.0	1.0	0.0	1.0
Western Range Sustaining Project	1,663	1,693	3.3	1.2	0.0	1.2
Western Ridge Crusher Project	574	608	1.1	0.1	0.0	0.1
Western Turner Syncline 2	826	1,026	1.7	0.3	0.0	0.3
Total	28,331	29,708	56.7	19.4	0.3	19.7

In total, there were 18 resource projects above $500m in FY29 values, with only one of these projects exceeding the $5bn threshold. In total, these projects had a combined project value of $28.3bn (in nominal values). CTF collected levies for these projects of $56.7m.

If a 0.2% levy rate was applied to the first $500m of capital value for these projects, and a 0.1% levy was applied for the capital value above $500m, this would have resulted in $19.4m of foregone levies over the 4 years to 31 December 2023. Applying a $5bn cap would additionally result a further $0.3m reduction in foregone levies. Overall, this results in a $19.7m reduction in levy collection over this 4 years period, which represents 23% of resource sector levies and 8% of the overall levy collected.

6.4 Impact analysis

Table 7.2 shows the estimated foregone levy in future years if a 0.1% marginal levy above capital value of $500m, and a $5bn cap applied.

Table 7.2 – Forecasted levy foregone ($m) from application of a 0.1% marginal levy above capital values of $500m and a $5bn cap.

	2023/24	2024/25	2025/26	2026/27	2027/28	2027/28
Base - Distribution of projects unchanged from history	3.5	3.9	4.1	4.1	4.0	4.2
% of base forecast levy	6.6%	6.9%	6.9%	6.5%	6.1%	6.1%
Indicative Scenario - 1 additional $10bn resource project	18.0	18.4	18.6	18.6	18.5	18.7
% of base forecast levy	34.1%	33.0%	31.4%	29.3%	28.2%	27.0%

Despite the small volume of large-scale projects, the application of a marginal levy for resource sector projects materially impacts the total levy collected, due to the large size of these projects. Assuming that the distribution of resources projects is consistent with the historical experience, we estimate that the implementation of the marginal levy rate will result in foregone levies of $4m p.a., or 6% of total current levies. While this scenario also considers the impact of introducing a $5bn capital value cap, we note that the application of this cap on

foregone levy is minimal as there is only one project which would be expected to exceed the cap, and not by a significant amount.

We note there is a high level of uncertainty around this estimate due to the small sample size. In a scenario where there is one additional $10b resource project per year, the total foregone levy would increase to $19m per year mostly because of the application of the $5bn capital value cap.

7 Introduce a capital value cap (Recommendation 10)

Introduce a capital value cap (Recommendation 10)

Consider introducing a cap on the capital value of any single building and construction project for the purposes of calculating the Levy to prevent the policy intent of the Levy from being undermined by large capital value projects, where the capital value of the project is driven solely by the high value of imported capital equipment.

7.1 Background

Currently the levy applies as a percentage of the total value on eligible projects, with no cap applied. This includes the material needed, labour costs, other necessary services, payable fees, overheads, profit margin and GST. If the capital value is driven by the cost of imported equipment, then the capital value of the project may not be proportional to the use of skilled workers, and therefore may be disproportionately funding training costs. This may be particularly prevalent in some resource projects which have very large capital values due to complex and highly specialised capital inputs required. In addition, the application of a single percentage levy amount means that very large projects will also have very large levy payables.

For context in other jurisdictions, we note that the Queensland Scheme has recently removed its capital value cap, which had applied at $5bn. Queensland's policy intent in previously implementing the cap was to reduce the cost of construction. There are no other Schemes where a capital value cap applies.

7.2 Approach

Our general approach was to analyse projects with value above a potential cap, based on historical data and forecast future project values. Using this we can estimate the proportional impact on levy collection, as capital value increases. We considered the distribution of project values in the resources sector, in particular where the levy saturation rate flattens out i.e. the capital value level where the industry demand for large-scale projects reduces.

The following assumptions were made:

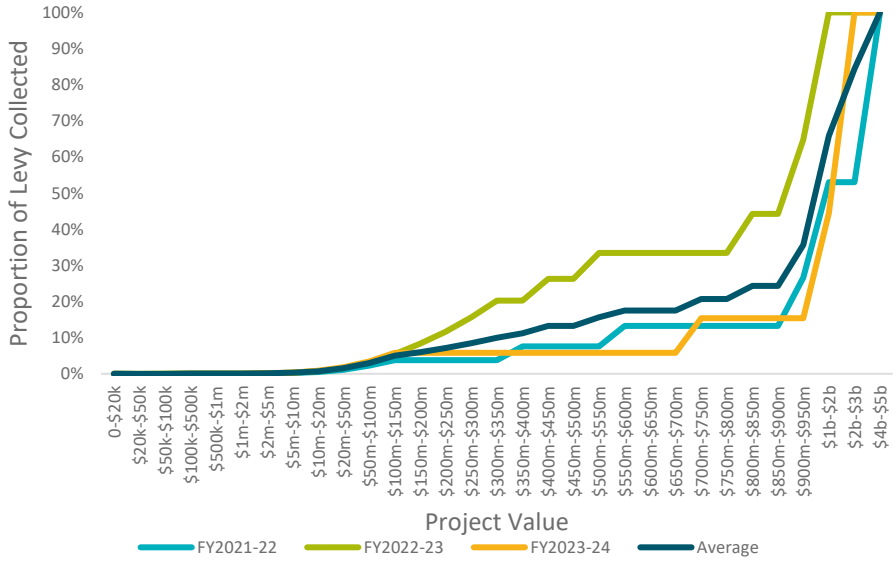
- The highest capital value observed to date for any project is around $5bn. In forecasting future project values, we have assumed that values will continue to increase above this level. Forecast growth in large capital values is driven by both anticipated increases in the price of materials and equipment and the anticipated increases in demand for construction activities in future performance forecasts. For resource sector projects in particular, this is driven by demand for commodities.
- The frequency of large projects has been assumed to remain similar to that observed in recent history, based on an assumption that the resources sector progresses through and generally repeats the business cycle every 3-5 years.
- The distribution of projects and their features are expected to have a similar profile in future to that observed in the three financial years of sample data provided.

We note that more detailed analysis could be conducted if more detailed data was available focusing on the structure of projects and the allocation of project value (direct as well as those included in sub-contracting arrangements) between labour or wage costs, value of capital goods, specifically imported capital goods (or equipment). This information was not available, which is a limitation of our approach.

7.3 Capital value cap analysis

Figure 4.1 shows the proportion of the total levy collected from the resources sector for 2021/22, 2022/23 and 2023/24, by capital value of the project.

Figure 4.1 – Distribution of resource sector projects



The maximum project value in CTF's experience is $5.3bn, however projects of this size do not commence every financial year, may take a few years to complete and may request a payment plan over several years of construction, due to the size of the levy collected.

We observe the following:

- Less than 10% of the levy amount collected in the resources sector relate to projects with capital value below $100m.
- Projects between $100m and $1b comprise around 30% of the levy amounts.
- The majority of the levy collected each year relates to projects with project value above $1bn. In particular, the levy collected from the largest 5% of projects relating to projects with capital value above $3bn, averaged around $15m per year.

7.4 Impact analysis

Table 7.1 shows the estimated foregone levy in future years if a capital value caps applied at $1bn, $3bn and $5bn.

Table 7.1 – Forecasted levy foregone ($m) from application of capital value caps

	2023/24	2024/25	2025/26	2026/27	2027/28	2027/28
$1bn cap	6.6	6.7	7.2	7.8	8.0	8.4
% of base forecast levy	12.5%	12.0%	12.2%	12.3%	12.2%	12.1%
$3bn cap	1.8	1.8	1.9	2.1	2.2	2.3
% of base forecast levy	3.4%	3.2%	3.3%	3.3%	3.3%	3.3%
$5bn cap	0.2	0.1	0.1	0.2	0.2	0.2
% of base forecast levy	0.3%	0.1%	0.2%	0.3%	0.3%	0.3%

Applying a capital value cap could have material impacts on the levy amount collected. We estimate that the implementation of $1bn cap will result in foregone levies of $7-8m p.a., or $12% of total current levies. This reduces to $2m (3%) under a $3bn cap, and $0.2m (<0.3%) under a $5bn cap. We note there is a high level of uncertainty around this estimate due to the small sample size.

8 Reliance and Limitations

8.1 Use of this Report

We have prepared this report for the sole use of CTF for the purposes outlined in Section 1 of this report. It is not necessarily suitable for any other purpose.

We understand that our involvement and report findings may be referenced by CTF, but that this report will not become publicly available.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

We remain available to answer any questions which may arise regarding our Report and conclusions. We assume that users of this report will seek such explanation and/or amplification of any portion of the Report that is not clear.

8.2 Reliance and limitations

We have relied on the information provided to us as detailed in Section 2 of this report. We have checked this information for reasonableness only and consider it to be appropriate for the scope of this review.

There are many limitations on the quality, completeness and relevance of the underlying data sources. The results, however, should be reasonable in order to inform decisions.

8.3 Uncertainties

We have formed our views based on the current environment and what we know today. If future circumstances change it is possible that our findings may not prove to be correct.

It is not possible to predict the financial impacts on the CTF with certainty, particularly with regards the recommendations where there is limited historical data available. We have adopted assumptions that we believe are reasonable considering the scope and nature of the assignment. The eventual outcome, after a few years have elapsed and the impacts of any adopted recommendations become known, may be materially higher or lower than the estimates in this report.