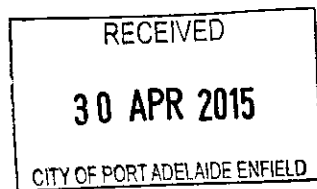




**CIVIL CONTRACTORS
FEDERATION**



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A-5-2015

Dear Wally

Local Government should steer the boat, not row the boat!

The Civil Contractors Federation (South Australian Branch) represents companies with business interests in the civil construction (contracting) industry in South Australia. The Federation is a registered employer association and has a membership of 550 company members who in turn employ up to 20,000 South Australians.

The Civil Contracting industry is defined as the sector responsible for the construction and maintenance of South Australia's infrastructure, including roads, bridges, pipelines, drainage, parks and gardens, airstrips, mining, oil and gas infrastructure and ports and utilities. Civil construction companies also play a vital role in the residential and commercial construction industry by providing earthmoving and land development services including the provision of power, water, communications and gas.

The purpose of this letter is to bring to your attention the Federation's deep concern about the historical practice of Local Government Councils self-performing civil construction works rather than engaging with the private sector for delivery. In recent times we have seen a significant growth in this practice. Our concern is made more acute by the beleaguered state of the South Australian economy which has resulted in diminished investment in public and private infrastructure and a contraction in the total volume of work that SA Councils are offering to the market.

Council self-performance of civil construction work is clearly inconsistent with our free market economy where the private sector provides the goods and services unless there is a market failure or a public good not able to be satisfied by the private sector. Compounding our concern is that in order to provide continuous work for the internal workforce some Councils compete with local private contractors for work. It is not a community expectation that local government, or government at any level, competes with the private sector for work. On every measure this is an unfair and inequitable practice.

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The CCF SA: the peak industry association for the civil contracting sector | influencing government policy and regulation | lobbying and advocating for civil contracting companies | maintaining networks of influential government, media and community contacts | providing information of relevance to civil contracting companies and the community | facilitating opportunities for civil contracting companies to be consulted on matters of importance | hosting social and networking opportunities for civil contractors | promoting the civil contracting sector | delivering civil training programs and courses | providing technical and specialist advisory services to civil contractors | progressing strategies designed to achieve and maintain a safe, sustainable and profitable civil contracting sector.

By undertaking civil construction work, Councils are taking work away from local private civil contractors. The only exception might be where a rural or remote Council does not have the services of a private civil contracting firm in their area. The increased prevalence of Councils self-performing civil construction and maintenance is occurring at a time when the civil construction industry is at a twenty year low point. South Australia is the poorer for this because it is losing private civil construction capacity. Given the critical role the civil construction sector plays in the growth and prosperity of South Australia, this ought to be a matter of serious concern to government at all levels.

The Local Government Act requires Councils to 'provide for the good rule and governance of the Council area; and (provide) for the convenience, comfort and safety of its inhabitants'. There is clearly no requirement or expectation under the Local Government Act for Councils to participate directly in the ownership of assets or the engagement of staff in order to deliver civil construction and maintenance works. The Act envisages Council as the enabler, not the deliverer!

By not testing the market in an open merit based tender process, rate payers cannot be confident they are receiving the 'best value for money' for the construction and maintenance of Council assets.

Employing a construction workforce with the associated capital investment in plant, equipment and land (for depots etc.) greatly increases Council operating costs, which in-turn add to the cost of Council overheads. These overheads result in the annual rate increases that have exceeded the Consumer Price Index by two, three or four fold throughout the last decade.

Contributing further to the tax burden on local ratepayers are the industrial instruments (Enterprise Bargaining Agreements) Councils have negotiated with unions for the employment of civil construction and maintenance staff. These Agreements, by virtue of their no forced redundancy provisions, have the effect of giving Council employees life time employment. Other than by way of voluntary separation, this makes it impossible for Councils to reduce their civil construction workforce to reflect changing economic and other circumstances. We are asking Councillors not to forget this when requested to approve the next Enterprise Bargaining Agreement. Giving employees life time employment is a relic of the past and unnecessarily adds to the cost of local government.

Additionally, working conditions historically negotiated with unions such as inclement weather clauses, make Council-employed labour highly uncompetitive with the private sector. Council employees have to be paid whether or not they have any work to do. We note that the labour component is the largest cost component of most Council budgets.

Some Councils undertake an internal exercise designed to assess whether it is more cost effective or better value to the community to undertake civil construction and maintenance projects in-house (self-perform) or outsource the work. The flaw in this process is it is not independent of Council and rarely factors in all of the costs associated with investing in and maintaining internal civil construction capacity. Many overheads are absorbed by council administration and are not properly identified. The larger the Council, the greater the likelihood of cost absorption into general overheads. Through this flawed self-assessment process, Councils, erroneously, usually come out being more competitive than a private service provider.

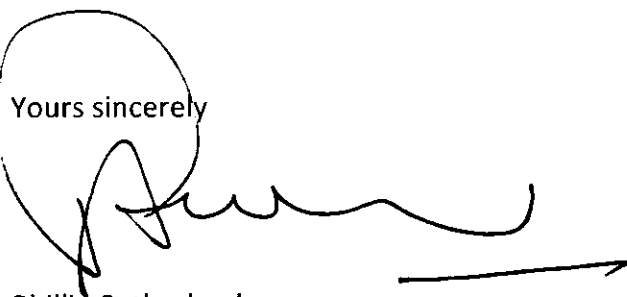
The delivery of civil construction works by private civil contractors will build capacity in your local community, and create jobs. Increasing the number of Council employees and Council owned assets including civil construction plant and equipment will very rarely deliver prosperity for your community. South Australian civil construction contractors are highly experienced, cost competitive and drivers of innovation. It is acknowledged that well managed and forward thinking Council staff are more than capable of scoping contracts, and managing projects and contractors. This is where it should start and finish. The engagement of private civil construction contractors removes the costs and risks (to Council) associated with the direct employment of staff.

Civil construction contractors are programmed to drive productivity, innovate with the use of new materials, new processes and construction methodologies that increase efficiency and reduce cost. They provide the highly trained, motivated and resourced project teams that can deliver your asset management and capital works programs with extensive stakeholder engagement within highly efficient construction timeframes.

There are a number of outsourcing construction procurement methodologies available that include design and construct, early contractor involvement, period panel contracts, performance based contracts, and alliance models to ensure that Council achieves its objectives (ie construction on time, on quality and on budget) in the most cost efficient and cost effective manner possible.

We recognize that for many Councils to make the decision to move to an asset management and capital works program that is solely delivered by the private civil construction sector will require a huge change of attitude on the part of council administration. Similarly, it will also require a good deal of political will and courage on the part of the elected body. Staff and Councillors can take comfort in the knowledge that by outsourcing civil construction and maintenance they will potentially generate significant savings and free up large sums of money that can be directed to important community projects.

The Civil Contractors Federation seeks your assurance that going forward your Council will focus its activities on its statutory role of regulator, government and governance and cease the practice of tendering for work in competition with private civil contractors (where applicable), and bring to an end the internal delivery (self-performance) of civil construction and maintenance. Your Council should steer the boat, not row the boat!

Yours sincerely


Phillip Sutherland
Chief Executive Officer

27th April 2015