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Submission to the South Australian Productivity Commission
Inquiry into Local Government costs and efficiency

Civil Contractors Federation

The Civil Contractors Federation - South Australia (CCF SA) welcomes the opportunity to make a submission addressing the publicised Terms of Reference to your Inquiry.

The CCF SA's submission focus is on the observations and concerns from the perspective of the Civil Construction Industry in South Australia. The CCF SA has earned its reputation as the leading advocate for the Civil Construction Industry in SA by continuing to provide fearless and apolitical submissions to Government Ministers and Opposition Members alike.

CCF SA is the peak employer body (Industry and Business Association) representing, promoting and protecting companies with business interests in the Civil Construction Industry. CCF SA boasts a growing membership of 500 companies, which in turn employ up to 30,000 South Australians.

Civil Contracting

The Civil Contracting Industry is defined as the sector responsible for the construction and maintenance of South Australia's public and private infrastructure, including roads, bridges, pipelines, drainage, airstrips, ports and utilities. Civil contractors also play a vital role in the residential and commercial building construction industry by providing earthmoving and land development services, including the provision of power, water, gas and communication networks. Infrastructure works necessary for the development of mining, oil and gas projects are also a mainstay of the sector.

South Australia's prosperity is dependent upon functional, efficient and cost-effective civil infrastructure. Healthy, well-functioning and productive countries depend on infrastructure that civil contractors construct and maintain.

Infrastructure is a smart investment for government and the community: it is an asset that increases the productivity of the economy, both now and into the future – and can make South Australia more competitive internationally. The civil construction sector is a primary economic driver building South Australia, day in day out, giving us the lifestyle we enjoy.

Councils undertaking construction works when the private sector can

The CCF SA is deeply concerned about the historic and growing practice of local councils self-performing civil construction works rather than engaging with the private sector for delivery. This is an unnecessarily costly practice and is rarely cost efficient or cost effective.

We believe that when councils undertake construction works in-house, the economic stimulus and jobs growth potential is diluted and is a practice 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. It is common practice for councils to self-perform construction works when there are many private civil construction firms in the same community, ready, willing and available to undertake the same works, in many instances arguably with better quality and at less cost.

South Australia was established on free market principles where entrepreneurialism was to be encouraged. We now have a state dominated by large government including a plethora of councils with the tentacles of government everywhere in the economy. We believe there is a relationship between a large government and the state's relatively slow economy and consistently high levels of unemployment when compared with the national average.

The slowing of the state economy has resulted in diminished investment in private infrastructure and a contraction in the total volume of work that councils are offering to the market. While the state government budget includes funds for public infrastructure at record levels, the very slow manner this work is coming to the market amplifies our concerns.

In order to provide continuous work for their internal workforce, some councils actively compete with local private contractors for work. Council employees are 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. It is not a community expectation that local government, or government at any level, compete with the private sector for work. On every measure this is an unfair and inequitable practice.

By undertaking civil construction work councils are taking work away from local private civil contractors. Given the critical role the civil construction sector can play in the growth and prosperity of South Australia, this practice ought to be a matter of serious concern to government at all levels. The only exception to council's self performing civil works might be where a rural or remote council does not have the services of a private civil contracting firm(s) in their area.

Was it the intention of Parliament that councils do everything and anything?

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. Several councils own and operate multi-million-dollar civil construction operations when the same capacity exists in their community! Why do they do this? They do this because they can, from their captive tax base. Their community pays for this unnecessary capacity through their rates whether they like it or not.

There is good argument to be made that the Act envisages Council as an enabler, not necessarily a deliverer. In this respect we note that currently up to 60% of council's expenditure is related to non-mandatory components. Councils are currently delivering services and performing functions well beyond its statutory role. Regardless of the efficiency and cost effectiveness of a service being provided by a council, people have no choice but to pay (their rates). Failing to pay rates can result in the forcible sale by council of a ratepayer's home!

Can the local taxpayer be confident that when their council decides to undertake construction work in-house that they are receiving value for their tax (rate) dollar?

Councils self performing civil construction and maintenance works without testing the market or testing the market via a less than objective process means local taxpayers (rate payers) cannot be confident they are receiving the 'best value for their tax dollar' - for the construction and maintenance of council assets. Best value to the local community needs to be considered in the broadest of terms, and not simply confined to best price, or based on the personal preference of a Council manager or as a mechanism to manage risk.

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 have contributed to the annual rate increases throughout the last decade that have in most cases well exceeded the Consumer Price Index.

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 externally (outsource). This process is usually described as 'competitive neutrality'. The flaw in this process is it is not independent of council and rarely factors in all 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 is, the greater the likelihood of cost absorption into general overheads.

Private businesses are unable to absorb (or hide) costs in the same way. In addition, council staff involved in the internal assessment often have a vested interest in maintaining the status quo and are biased to ensure the council workforce is 'looked after'. The net result usually is that in order to undertake the project in question the councils workforce is found to be more competitive than the private service providers. The fact that a few councils can and do contract most of their civil works to the private sector, whereas other councils maintain vast fleets of often under-used and over-subsidised plant and facilities, is indicative of the failure of any current competitive neutrality policy.

The cost of council workforce versus a private sector workforce

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 lifetime 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. Giving employees lifetime employment is a past practice and unnecessarily adds to the cost of local government.

Several councils have advised us they would prefer to outsource their civil construction works but are unable to do so because they would be left with a workforce with no work to undertake that they can't downsize!

Public investment into the private economy grows jobs and provides economic stimulus

The delivery of civil construction works by private civil contractors will build capacity in local communities and create jobs. Conversely, increasing the number of council employees and council owned assets including civil construction plant and equipment, will very rarely deliver prosperity to a community.

It is acknowledged that many 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.

The great majority of South Australian civil construction contractors are highly experienced, cost competitive and drivers of innovation. Civil construction contractors are incentivised 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 asset management and capital works programs with extensive stakeholder engagement within highly efficient construction time frames.

There are a number of outsourcing construction procurement methodologies available to councils that include design and construct, early contractor involvement, period panel contracts, performance based contracts, and alliance models to ensure that council achieves its objectives (i.e. construction on time, on quality and on budget) in the most cost efficient and cost effective manner possible. Councils can steer the boat without necessarily rowing the boat!

We recognise 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 elected 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.

Summary

SA is a free market economy and there is already far too much government intervention in the economy, which as a result, is distorted, resulting in low jobs growth and a slow economy (compared with other states).

The CCF SA recommends that in only limited, defined and possibly mandated circumstances should a local council undertake or engage in direct competition with private civil contracting businesses.

If local councils seek to secure in-house supply of services, when such services are also offered by private civil contractors operating in a competitive market, a revised, updated and robust competitive neutrality policy ought to be applied. Independent oversight and/or audit of a council's internal competitive neutrality processes must occur.

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