
Standing Committee on State Development

Inquiry into Road Maintenance and Competitive Road Maintenance Tendering

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New South Wales Legislative Council

Standing Committee on State Development

Inquiry into Road Maintenance and Competitive Road Maintenance Tendering

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Terms of Reference

These terms of reference were referred to the Committee by the Hon Carl Scully MP, Minister for Transport and Minister for Roads who requested that the Standing Committee on State Development inquire into and report on the following issues:

- A comparison of road maintenance delivery methods in other jurisdictions;
- A comparison of the cost effectiveness of road maintenance in New South Wales with other jurisdictions
- The effect of Federal cuts to maintenance of the National Highway system on regional development;
- The use of competitive tendering for road maintenance in accordance with the NSW Government's Service Competition Policy to reduce the cost and improve the quality of road maintenance in New South Wales;
- The implementation of competitive tendering, particularly methods to optimise opportunities for the participation of Roads and Traffic Authority road services and Local Government in competitively tendered road maintenance work.

(Reference received on 17 September 1999)

In addition, the House resolved that the Standing Committee on State Development inquire into and report on:

- The social impact of compulsory competitive tendering in relation to the letting of contracts by the Roads and Traffic Authority for works to be carried out on State roads.

(Received by resolution of the House on 13 October 1999)

The terms of reference received by the House clarified the scope of the inquiry subsequent to correspondence received on 23 September 1999 by the Minister for Transport and Minister for Roads, who advised that,

"I believe the Terms of Reference are wide enough to cover examination of the social impacts of State and Federal policies in relation to the points outlined in the reference, should you chose to do so."

By correspondence received on 12 October 1999, the Minister for Transport and Minister for Roads outlined the following issues as relevant for consideration during the inquiry with respect to the social impacts of road maintenance tendering.

- The impact upon occupational health and safety;
- Community service obligations;
- Industrial relations, including the impact upon rates of pay, conditions of employment, equal employment opportunity, together with the effects upon job security and unemployment;
- The impact upon rural and regional employment, including the maintenance of local government as a strong and independent public employment sector;
- Economic and regional development; and
- The effect upon skill development and training.

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The Hon Dr Brian Pezzutti RFD MLC Liberal Party	Deputy Chairman
The Hon Ian Cohen MLC The Greens	
The Hon John Johnson MLC Australian Labor Party	
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Table of Contents

	Chair's Foreword	xii
	Summary of Recommendations	xiv
	Glossary	xv
Introduction		1
	Referral of the Inquiry	1
	The Inquiry Process	3
	Scope and nature of the Standing Committee report	7
Chapter 1	BACKGROUND	9
	Road assets in New South Wales and other States and Territories	9
	Road maintenance defined	11
	Funding sources for road maintenance	12
	Local Councils	12
	New South Wales Government – NSW Roads and Traffic Authority	13
	Commonwealth Government	15
	Program types:	16
	Efficiency drivers in the provision of road maintenance	23
	Transparency and accountability in road maintenance service delivery	23
	Road maintenance cost reduction	25
	Productivity improvements	26
	New South Wales Government Service Competition Guidelines	27
	National Competition Policy	28
	Committee analysis	29
Chapter 2	ROAD MAINTENANCE DELIVERY IN OTHER JURISDICTIONS	31
	South Australia	31
	Victoria	34
	Queensland	35
	ACT	36
	Northern Territory	37
Chapter 3	IMPACTS OF CCT ON ROAD MAINTENANCE	38
	The major stakeholders	38

	Service Quality	38
	Concept of quality	39
	The evidence presented to the inquiry	39
	Other evidence on quality	40
	Key factors affecting quality	40
	Effectiveness of the CCT process	40
	Technology and innovation	42
	The cost impacts of CCT	43
	The nature and sources of savings	46
	Efficiency	47
	Predatory pricing	52
	Cost transfers	53
	Committee analysis	55
Chapter 4	THE IMPACTS OF CCT ON REGIONAL SOCIO-ECONOMIC FACTORS	56
	The impact on industry	56
	The impact on local government	57
	Competition between councils and contractors	58
	Size and length of contracts	59
	Implementation time frame	61
	Outcomes for councils under CCT	61
	The impact on rural local areas	63
	Implications for local economies	64
	Implications for local employees	65
	Committee analysis	68
Chapter 5	ALTERNATIVES TO CCT	70
	Benchmarking	70
	Definition	70
	Revised State Government reform package	70
	Benchmarking as a driver for reform	71
	Establishing benchmarks	73
	Cost effectiveness	74
	Quality levels	75
	Adoption of benchmarking	76
	Other policy approaches	77
	Contrasting view on project delivery reform	77

	Formation of business units	77
	Reverse auctions	78
	An integrated reform process	78
	Planned and timely implementation	79
Appendix 1	Submissions Received	82
Appendix 2	Previous Publications	85
Appendix 3	Minutes of Meetings	88
Appendix 4	Media Release: The Hon Carl Scully MP, Tuesday 30 November 1999	114

Figures, Tables and Charts

Table 1	Publications, position and date of advertising of Committee's terms of reference	3
Table 2	Number and percentage of total submissions by organisation type	5
Table 3	State and Territory comparison of selected road statistics	9
Table 4	New South Wales road length by classification	10
Table 5	NSW Roads and Traffic Authority expenditure under the Road Network Infrastructure Maintenance program 1994-95 to 1999-00 (\$'000)	14
Table 6	Commonwealth Government revenue from Petroleum Products Excise.-(\$m)	15
Figure 1 & Table 7		
	Commonwealth Government expenditure for roads on all programs (actual and real terms) 1995-96 to 1999-00 (\$m)	17
Figure 2 & Table 8		
	Average Commonwealth Government expenditure identified for road maintenance of national highways by State and Territory (actual and real terms), 1995-96 to 1999-00 (\$m)	18
Table 9	Contrasting definitions of Commonwealth Government program funding for road maintenance of national highways used by the Commonwealth Department of Transport and Regional Services and the NSW Roads and Traffic Authority	19
Figure 3 & Table 10		
	Commonwealth Department of Transport and Regional Services and NSW Roads and Traffic Authority's views on Commonwealth Government expenditure for road maintenance of national highways in New South Wales (actual terms) 1995-96 to 1999-00 (\$m)	20
Figure 4 & Table 11		
	Commonwealth Government expenditure for Program maintenance for national highways in New South Wales (actual and real terms) 1995-96 to 1999-00 (\$m)	22
Table 12	Average unit rate for routine maintenance in Victoria	46

Table 13	Roads Maintenance Effectiveness 110 NRM	48
Table 14	Maintenance cost per lane-km (\$'000) to keep road below an acceptable roughness level of 110 & Maintenance cost per lane-km (\$'000) to keep road below a desirable roughness level of less than 140	48

Chair's Foreword

In March 1999 the NSW Roads and Traffic Authority commenced a series of reforms that comprised, in part, the establishment of a compulsory competitive tendering (CCT) policy for maintenance of roads designated as State Roads and National Highways in New South Wales. The potential impact of this reform concerned local Councils and NSW Roads and Traffic Authority employees who together conduct around 93% of this work. The consequences of the CCT reform on employment, wages, and employee conditions created apprehension in rural communities.

The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads responded to these concerns by issuing the Standing Committee on State Development with terms of reference to inquire into and report on road maintenance and competitive road maintenance tendering in New South Wales. The Committee received the terms of reference on 17 September 1999. The Legislative Council resolved to provide the Standing Committee with additional terms of reference on 13 October 1999.

After conducting further consultation with road maintenance stakeholders, including Roads and Traffic Authority, local councils, unions, Country Labor and local MPs, the Minister announced a revised reform package for road maintenance service delivery on 30 November 1999. The revised policy addressed many of the concerns held by stakeholders by replacing CCT with benchmarking standards to achieve greater accountability and efficiency gains in road maintenance service delivery.

Accordingly the committee agreed to conduct its inquiry in a less extensive manner than was originally proposed with committee investigations and its report based on issues raised in submissions without conducting public hearings. This approach enabled an effective and responsible means of achieving Committee findings for the community without a lengthy inquiry process. The report includes 3 recommendations and considers drivers for reform of road maintenance service delivery, relevant stakeholder views, approaches undertaken in interstate and international jurisdictions and a chronology of NSW Government policy in road maintenance.

I wish to extend my gratitude to all those who made submissions to the Inquiry. The insightful and balanced discussion provided in this report is a reflection upon the valuable submissions received from the community during the Inquiry process.

Finally I would like to thank my fellow Members of the Standing Committee and the Committee secretariat for their involvement during the Inquiry and in preparing this report. I particularly note the efforts of the Committee Director, Steven Carr, Senior Project Officer, Robert Stefanic, Research Assistant, Stephen Fenn and Committee Officer, Annie Marshall for their research, analysis and administrative support.

Hon. Tony Kelly, MLC
Chairman

Summary of Recommendations

Recommendation 1 *Page 29*

The Standing Committee recommends the NSW Roads and Traffic Authority adhere to the NSW Service Competition Guidelines in its establishment of benchmarking practices for maintenance of State funded roads.

Recommendation 2 *Page 76*

The Standing Committee recommends that the criteria and performance of RTA work crews and local councils in road maintenance benchmarking be made publicly available.

Recommendation 3 *Page 78*

The Standing Committee recommends that the Business Units formed should adhere to benchmarking processes.

Glossary

ABS	Australian Bureau of Statistics
CCT	Compulsory competitive tendering
CPI	Consumer Price Index
CTC	Competitive Tendering and Contracting
DTRS	Commonwealth Department of Transport and Regional Services
EPA	Environmental Protection Authority
LGSA	Local Government and Shires Associations of NSW
MMS	Maintenance Management System
NAASRA	National Association of Australian State Road Authorities
NCC	National Competition Council
NCP	National Competition Policy
NRM	NAASRA Roughness Meter
OECD	Organisation for Economic Development
PSMC	Performance Specified Maintenance Contract
RME	Road Maintenance Effectiveness
RTA	Roads and Transport Authority of NSW

Introduction

Referral of the Inquiry

The Standing Committee on State Development's terms of reference for its Inquiry into road maintenance and competitive road maintenance tendering consisted of two components. The first component comprised the original reference provided to the Committee by the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads on 17 September 1999. The second reference component emanated through resolution of the Legislative Council on 13 October 1999. The Standing Committee's terms of reference also include two quotes that are drawn from correspondence forwarded by the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads to the Committee. These quotes did not place a requirement on the Committee to report in a certain manner, but rather served to clarify the Minister's original terms of reference.

On 17 September 1999, the Standing Committee received correspondence from the Minister requesting that the Committee inquire into and report on the following issues:

- a) A comparison of road maintenance delivery methods in other jurisdictions;*
- b) A comparison of the cost effectiveness of road maintenance in New South Wales with other jurisdictions;*
- c) The effect of Commonwealth cuts to maintenance of the National highway system on regional development;*
- d) The use of competitive tendering for road maintenance in accordance with the NSW Government's Service Competition Policy to reduce the cost and improve the quality of road maintenance in New South Wales; and*
- e) The implementation of competitive tendering, particularly methods to optimise opportunities for the participation of Roads and Traffic Authority road services and Local Government in competitively tendered road maintenance work.¹*

¹ Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 17 September 1999.

In response to a request by the Chairman, the Minister forwarded correspondence to the Standing Committee that endeavoured to clarify the Committee's terms of reference in relation to the social impacts of Commonwealth and State Government road maintenance policies.² In correspondence received by the Committee on 23 September 1999, the Minister stated:

*"I believe the Terms of Reference are wide enough to cover examination of the social impacts of State and Federal policies in relation to the points outlined in the reference, should you chose to do so."*³

The above mentioned quote was included in the Committee's terms of reference as an information guide to the public.

On 12 October 1999, the Standing Committee received further correspondence from the Minister.⁴ In the correspondence, the Minister referred to a motion passed by the NSW ALP State Conference asking for the following issues to be considered by the Standing Committee as part of its Inquiry into road maintenance and competitive road maintenance tendering:

- f) "The impact upon occupational health and safety;*
- g) Community service obligations;*
- h) Industrial relations, including the impact upon rates of pay, conditions of employment, equal employment opportunity, together with the effects upon job security and unemployment;*
- i) The impact upon rural and regional employment including the maintenance of local government as a strong and independent public employment sector;*
- j) Economic and regional development; and*
- k) The effect upon skill development and training."*⁵

In the same correspondence, the Minister acknowledges the relevance of these issues and indicates that the Standing Committee may consider these matters within the parameters of the

² Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 23 September 1999.

³ Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 23 September 1999.

⁴ Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 12 October 1999.

⁵ Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 12 October 1999.

Inquiry's existing terms of reference.⁶ The above points were included in the Standing Committee's terms of reference as an information guide to the public.

Road maintenance and competitive road maintenance tendering formed an issue of debate within the Legislative Council on 13 October 1999. The Hon. Duncan Gay, MLC, moved a three part Motion on compulsory competitive tendering that included two amendments to the Standing Committee's terms of reference into road maintenance and competitive road maintenance tendering.⁷ Debate on the Motion of the Hon. Duncan Gay ensued, with the Hon. Duncan Gay (National Party), the Hon. Tony Kelly (Australian Labor Party), the Hon. Dr Arthur Chesterfield-Evans (Australian Democrats), Reverend the Hon. Fred Nile (Call to Australia Group) and Ms Lee Rhiannon (The Greens) speaking.⁸ An amended Motion was passed by the Legislative Council providing the following as additional terms of reference to the Standing Committee's road maintenance and competitive road maintenance tendering Inquiry:

*"That the Standing Committee on State Development inquire into and report on the social impact of compulsory competitive tendering in relation to the letting of contracts by the Roads and Traffic Authority for works to be carried out on State roads."*⁹

The Inquiry process

Upon receiving its terms of reference into road maintenance and competitive road maintenance tendering, the Standing Committee called for public submissions through advertisements in national, metropolitan and non-metropolitan press. Advertisements were placed in the following press during the period 23 - 25 October 1999.

Table 1

Publications, position and date of advertising of Committee's terms of reference

PUBLICATION	POSITION	INSERTION DATE
National		
The Australian	Early General News	Saturday 23 October 1999
Metropolitan		
The Sydney Morning Herald	Early General News	Saturday 23 October 1999
Illawarra Mercury	Early General News	Saturday 23 October 1999

⁶ Correspondence from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to the Hon. Tony Kelly, MLC, Chairman, received 12 October 1999.

⁷ *Hansard*, Legislative Council, 52nd Parliament of New South Wales, 13 October 1999, p. 1340.

⁸ *Hansard*, Legislative Council, 52nd Parliament of New South Wales, 13 October 1999, pp.1340-1348.

⁹ Legislative Council Business Papers, 52nd Parliament, Minutes No.11, Wednesday 13 October 1999, pp.105-106.

Newcastle Herald	Early General News	Monday 25 October 1999
Non-metropolitan		
Dubbo Daily Liberal	Early General News	Saturday 23 October 1999
Lismore Northern Star	Early General News	Saturday 23 October 1999
Tamworth Northern Daily Leader	Early General News	Saturday 23 October 1999
Wagga Daily Advertiser	Early General News	Saturday 23 October 1999
Grafton Daily Examiner	Early General News	Monday 25 October 1999
Town and Country Magazine (South)	Early General News	Monday 25 October 1999

The advertisements reached in excess of 1,613,000 readers or more than 29.9% of the New South Wales population aged 14 and over.¹⁰

The Standing Committee disseminated a media release outlining its terms of reference and background details of the Inquiry to a large number of press, radio and television media sources.

In accordance with the Chairman's commitment to the Legislative Council on 13 October 1999¹¹, the Standing Committee forwarded written correspondence to all 177 local councils¹² in New South Wales. The correspondence included the Committee's terms of reference for its Inquiry and an invitation to prepare a submission for the Committee's consideration. Similar correspondence was directed to government agencies and organisations with a recognised interest in road maintenance including the:

Municipal and Shire Employees' Union NSW;

Australian Workers' Union NSW;

ARRB Transport Research Ltd;

¹⁰ Roy Morgan, Single Source Australia, January – December 1999. Readership statistics for the combined national and major metropolitan press (*The Australian, Sydney Morning Herald, Illawarra Mercury and Newcastle Herald*) is estimated at 29.9%. Other non-metropolitan press provided additional readership coverage.

¹¹ *Hansard*, Legislative Council, 52nd Parliament of New South Wales, 13 October 1999, p. 1342.

¹² Subsequent to the Standing Committee's mail out, four local Councils have merged, leaving 175 local Councils in New South Wales. Councils to merge were Armidale City Council and Dumaresq Shire Council, (the new council is known as Armidale Dumaresq Council), and Casino Council and Richmond River Shire Council (the new council is known as Richmond Valley Council).

relevant government agencies charged with administration of road maintenance in all States and Territories of Australia;

Commonwealth Department of Transport and Regional Services;

Bureau of Transport Economics;

National Road Transport Commission;

Transit New Zealand; and

Transfund New Zealand.

At the time of preparing this report the Standing Committee had received 43 submissions to its Inquiry. Table 2 details the submissions by respondent type:

Table 2

Number and percentage of total submissions by organisation type

Respondent type	No. of submissions	Percentage of total (%)
Private citizen	1	2.3%
Private organisation / interest group	11	25.6%
Government agency / local Council	31	72.1%
TOTAL	43	100%

The Standing Committee chose not to conduct any public hearings for the Inquiry.

Circumstances influencing the Standing Committee's Inquiry process

On 30 November 1999, the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads issued a media release entitled "State Road Maintenance Jobs Protected"¹³ advising of his decision not to implement compulsory competitive tendering for State and National Road maintenance in New South Wales.

The Minister, in outlining the revised road maintenance proposal, stated in his media release:

*"Instead of competitive tendering, local councils and RTA road crews will continue to carry out State road maintenance and a new system of standards, known as benchmarking, will be introduced to guarantee a high quality of work and reduced maintenance costs."*¹⁴

¹³ The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, Media release, dated 30 November 1999.

¹⁴ The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, Media release, dated 30 November 1999, p.1

Reference was made to the consultative work undertaken by the NSW Roads and Traffic Authority, unions, local Councils and Country Labor in relation to achieving the revised State road maintenance policy outcome.¹⁵

On 21 January 2000, the Standing Committee received correspondence from the Minister advising of his decision not to proceed with a compulsory competitive tendering approach to road maintenance of state roads and National highways in New South Wales.¹⁶

In his correspondence to the Standing Committee, the Minister identified the following factors as contributing to his decision to alter the mechanism for achieving efficiency savings in maintenance of State roads and National highways from compulsory competitive tendering to benchmarking:

"I have formed my decision having regard to the Government's commitments to regional development, social justice and sustainability of employment in rural NSW. I believe the efficiency savings the RTA has sought from the roads maintenance program can be pursued through the joint commitment and efforts of both the RTA and local Government working together to drive greater gains from the roads maintenance program funding."¹⁷

The Minister noted the recent review completed by the NSW Auditor-General on road maintenance, and the Commonwealth Audit Office's review of road maintenance due for tabling in Commonwealth Parliament in 2000. The Minister also documented his understanding of the amount of work and resources involved in conducting a Committee inquiry and the commitments the Standing Committee has in respect to other inquiry matters.¹⁸

¹⁵ The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, Media release, dated 30 November 1999, p.1.

¹⁶ Correspondence from Minister for Transport and Minister for Roads, to Chairman, dated 21 January 2000.

¹⁷ Correspondence from Minister for Transport and Minister for Roads, to Chairman, dated 21 January 2000, p.1.

¹⁸ Correspondence from Minister for Transport and Minister for Roads, to Chairman, dated 21 January 2000, pp.1-2.

Reflecting upon the combined nature of these issues the Minister stated:

"...I believe there would be limited value in the Committee proceeding with the Inquiry".¹⁹

The NSW Roads and Traffic Authority considered that the Minister's decision not to introduce CCT limited the benefits of the Inquiry and the need to make a detailed submission:

"I consider that the Revised Road Maintenance Reform Package will to a large extent override the purpose of the Inquiry. To this end, I believe there would be limited value in the RTA making a detailed submission to the Inquiry."²⁰

The Minister's decision not to implement CCT, combined with his view that the Inquiry was of limited value, influenced the scope and nature of the Standing Committee's Inquiry process in the following ways:

Public interest in the Inquiry. A considerable decline in public interest surrounding the Inquiry was observed. The Standing Committee fielded numerous telephone enquiries, largely from local Council's and interest groups, seeking clarification as to whether the Standing Committee was still accepting submissions and if the Inquiry was to proceed;

The number of submissions actually received by the Committee was well below original expectations; and

Public hearings or site visits were not conducted. Under the original terms of reference the Standing Committee considered conducting a number of public hearings in metropolitan, rural and regional New South Wales.

Scope and nature of the Standing Committee report

The scope and nature of the Standing Committee's Report may be summarised as follows:

The Report draws information from submissions to the Standing Committee's inquiry, transcript evidence of General Purpose Standing Committee No.4. Budget Estimates, 1999-2000 public hearing of 16 September and material generated by Standing Committee research, analysis and comment.

The Report examines interstate approaches to road maintenance service delivery for State roads and National highways using details sourced from submissions, responses to information requests and research material.

¹⁹ Correspondence from Minister for Transport and Minister for Roads, to Chairman, dated 21 January 2000, p.1.

²⁰ Submission No.31, NSW Roads and Traffic Authority, p.2.

Consideration of the socio-economic impacts of CCT was limited by the withdrawal of the policy prior to the instrument becoming operational. Discussion is based on arguments raised in submissions and correspondence concerning CCT approaches undertaken in metropolitan areas of New South Wales, interstate and in New Zealand.

The Report investigates the proposed use of benchmarking in New South Wales to replace compulsory competitive tendering as an efficiency driver for road maintenance service delivery. The paucity of information that existed at the time of preparing this report concerning how benchmarks will be applied and compared limited the extent of this discussion. Benchmarking details were sourced from Queensland and South Australian experiences of road maintenance service delivery.

A significant number of submissions to the Inquiry provided information that was anecdotal and made certain assertions without reference to qualitative or quantitative sources. This situation may have resulted from the restricted exposure to compulsory competitive tendering of road maintenance in New South Wales, therefore providing limited examples specific to New South Wales. The reader must therefore evaluate information in Chapters 4 and 5 with this in mind.

The Report includes three recommendations. The withdrawal of compulsory competitive tendering as an efficiency driver for road maintenance service in delivery of State roads and National highways in non-metropolitan areas of New South Wales negated any need for the Standing Committee to issue recommendations with respect to this policy instrument. NSW Roads and Traffic Authority's approach to benchmarking, at the time of preparing this report, was still in its policy development stage. In light of this, the Standing Committee considered that instituting recommendations pertaining to benchmarking would at this stage be premature.

The Report serves as a policy discussion paper for reform of road maintenance service delivery in New South Wales. The report reviews and analyses road maintenance service delivery approaches in the context of seeking to promote community discussion of the most appropriate way forward for New South Wales road maintenance service delivery policy.

Chapter 1 BACKGROUND

Road assets in New South Wales and other States and Territories

The most current national road statistics, prepared by Austroads in 1995, reveal that approximately 801,402 kilometres of road exists in Australia.²¹ New South Wales has the greatest length of road with 181,800 kilometres or 22.7% of the national total. In relation to Australian States, New South Wales has the highest number of persons per kilometre of road (33.6 persons/kilometre). New South Wales has a relatively high road density figure (0.227 kilometre/square kilometre) compared to the larger States such as Queensland, Western Australia and South Australia. Selected road statistics across states and territories are outlined below in Table 3:

Table 3

State and Territory comparison of selected road statistics

Criteria	NSW	VIC	QLD	WA	SA	TAS	NT	ACT	Total
Area (sq km)	801,600	227,600	1,727,200	2,525,500	984,000	67,800	1,346,200	2,400	7,682,300
Total road length (km)	181,800	159,868	174,429	143,143	94,815	24,590	20,332	2,425	801,402
Persons per km of road	33.6	28.2	18.8	12.1	15.5	19.2	8.6	125.4	22.5
Road density (km/sq km)	0.227	0.702	0.101	0.057	0.096	0.363	0.015	1.010	0.104

Source: *Road Facts '96, Austroads 1997, p.41.*

- 1.1** In broad terms, roads are classified as “National/Commonwealth”, “State” or “Local” to coincide with the hierarchy of the Australian government system.²² While not one level of government has complete responsibility for the planning, funding and maintenance of roads, roads are classified to correspond with the level of government that has primary responsibility for such activities.²³

²¹ *Road facts '96, Austroads, Sydney, 1997, p.41.*

²² For the purposes of discussion, local council is referred to as local government. The Committee recognises that local council is not a designated third tier of government.

²³ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance, The Audit Office of New South Wales, 1999, p.14.* Exceptions do exist.

1.2 Details of road classification in New South Wales are outlined in Table 4.

Table 4

New South Wales road length by classification

Road classification	NSW road length (km)	Road length as a % of NSW total
National roads		
National highways ¹	3,010	1.7
State roads		
Other state roads	14,370	7.9
Toll roads	30	0.02
Unincorporated regional roads	510	0.3
Unincorporated local roads	2,460	1.3
<i>Sub total (national and state roads)</i>	20,380	11.2
Local roads		
Council regional roads ²	18,550	10.2
Local council roads ³	142,870	78.6
<i>Sub total (local council)</i>	163,250	89.8
Total	181,800	100 ⁴
Note:		
1. Commonwealth Government is charged with primary responsibility for funding and planning national highways although the NSW Roads and Traffic Authority manages and maintains these road networks.		
2. Responsibility for Council Regional Roads is shared between the NSW Roads and Traffic Authority and local councils.		
3. Derived estimate.		
4. Figures may not equate to sub totals and total due to rounding.		

Source:

1. Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance, *The Audit Office of New South Wales, 1999, p.15.*

2. *Road Facts '96, Austroads 1997, p.41.*

1.3 Of the total length of road in New South Wales, approximately 20,380 kilometres or 11.2% is designated as State roads that are managed by the NSW Roads and Traffic Authority.

1.4 Management of construction and maintenance expenditure for State roads and National Highways is undertaken by the NSW Roads and Traffic Authority through funding from Commonwealth and State sources.

Road maintenance defined

1.5 This report adopts the following definition of road maintenance as used by Audit Office of New South Wales in its report *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*:

“Road maintenance is concerned with the preservation of the roadway. This includes the pavement surface, its shoulders, the roadside and structures such as bridges and car carrying ferries.”²⁴

1.6 This Report separates road maintenance into three types.

1.7 1. Maintenance of the pavement which includes:

- fixing potholes, rough patches and broken edges, crack sealing;
- re-coating bitumen and concrete surfaces to waterproof the road and reduce skidding;
- shoulder widening; and
- rebuilding roads when they are fatigued...²⁵

1.8 2. Bridge maintenance to joints, bearings, drains and underpasses.²⁶

1.9 3. Maintenance of the environment surrounding the road or associated structures. For example clearing of rubbish and vegetation from the road shoulders to improve driver viewing and road safety is considered road maintenance, as is the maintenance of retaining walls and noise reduction barriers. Other activities that fall within this category of road maintenance include clearing of drains and pavement sweeping.²⁷

1.10 Road maintenance involves activities that preserve the standard of current road assets. Activities that generate new road infrastructure or substantially alter existing road infrastructure are classified as capital infrastructure works. Examples of road

²⁴ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, p.14.

²⁵ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, pp.14 and 16.

²⁶ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, p.15.

²⁷ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, p.16.

infrastructure works include development of new roads and tunnels and replacement of bridges.

- 1.11** From an accounting perspective, expenditure for road maintenance includes actual material, machinery and employee related costs.
- 1.12** The road maintenance reform package announced by the NSW Roads and Traffic Authority on 28 May 1999 proposed the application of competitive tendering processes for roads designated as state roads or national highways.²⁸ The Audit Office of New South Wales found that NSW Roads and Traffic Authority expenditure on road maintenance for state Roads in 1998-99 was largely allocated to NSW Roads and Traffic Authority road crews (63%), with the remaining expenditure allocated to local councils (30%) and private contractors (7%).²⁹

Funding sources for road maintenance

- 1.13** Funding for road maintenance is almost exclusively derived from commonwealth government, state government and local council budgets.

Local Councils

- 1.14** The NSW Roads and Traffic Authority provide funding to local councils for maintenance of Regional Roads. During 1998-99 the NSW Roads and Traffic Authority allocated \$111.1 million for Regional Roads maintenance that included components such as block grants, subsidies and disaster assistance.
- 1.15** For maintenance of local roads, the Authority allocated \$53.9 million in 1998-99 to councils under the programs of bus route subsidy, 3x3 fuel levy³⁰ and disaster assistance. During the same period, funding of approximately \$46.9 million was directed by the Authority to State, Regional and Local Roads for street lighting and traffic facility maintenance.
- 1.16** Local councils levy rates as part of their revenue stream to enable council activities to be undertaken including the maintenance of local roads. A local council can also obtain funds through untied grants available from the Commonwealth funded Local

²⁸ The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, Media release, "State Road Maintenance Jobs Protected", 30 November 1999, pp.1-2.

²⁹ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, p.57. Figures do not include work conducted for National highways.

³⁰ 3 cents fuel excise originally imposed for three years but has since ceased.

Government Grants Commission that may be used for any purpose including road maintenance.³¹

New South Wales Government – NSW Roads and Traffic Authority

- 1.17** *New South Wales Budget Estimates 2000-2001* indicate that total expenditure under all road programs implemented by the NSW Roads and Traffic Authority in 1999-2000 equated to \$2,311 million, of which \$1,096 million comprised operating expenses and \$1,215 million capital expenditure.³² The Authority has confirmed that, of its operating expenses for 1999-00, actual expenditure for the Road Network Infrastructure Maintenance program was \$545 million³³ Outlined below in Table 5 is a historical account of NSW Roads and Traffic Authority expenditure on road maintenance in New South Wales under the Road Network Infrastructure Maintenance program for the period 1995-96 to 1999-00. The table includes actual and real (CPI indexed) expenditure. Real expenditure is a derivation of actual expenditure that has been adjusted for inflation (using an ABS estimate of CPI for Sydney).³⁴ Real expenditure reflects the real movement of road maintenance expenditure over time.

³¹ *Performance Audit Report, Roads and Traffic Authority of NSW, Planning for Road Maintenance*, The Audit Office of New South Wales, 1999, p.20.

³² *Budget Estimates 2000-2001 New South Wales*, Budget Paper No.3, Volume 2, pp.20-30.

³³ *Correspondence from Director, Road Network Infrastructure*, NSW Roads and Traffic Authority, dated 27 October 2000, p. 2.

³⁴ The CPI index used is "Sydney, all groups", sourced from ABS Cat 6401.0 as recommended by the RTA in correspondence dated 25 August 2000, p.1.

Table 5

NSW Roads and Traffic Authority expenditure under the Road Network Infrastructure Maintenance program 1994-95 to 1999-00 (\$'000)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00¹
Actual Expenditure	539,523	540,561	554,819	527,461	601,388	545,249
CPI – Sydney²	113.0	118.7	120.4	120.5	122.5	125.3
Real Expenditure³ (1999-2000 dollars)	598,250	570,617	577,399	548,472	615,134	545,249
Note:						
1. Road maintenance expenditure for 1999-2000 is a budget estimate. Actual expenditure may vary.						
2. An indicator for movements in inflation. Sydney, all groups, CPI Index for each relevant financial year is presented.						
3. Real expenditure is a derivation of actual expenditure that has been adjusted for inflation (using CPI) to 1999-2000 dollars. Real expenditure reflects the real movement of road maintenance expenditure over time.						

Table derived from:

Budget Estimates 2000-2001, New South Wales, *Budget Paper No.3, Volume 2, pp. 20-38.*

Budget Estimates 1999-2000, New South Wales, *Budget Paper No.3, Volume 2, pp. 20-41.*

Budget Estimates 1998-1999, New South Wales, *Budget Paper No.3, Volume 1, p.648.*

Budget Estimates 1997-1998, New South Wales, *Budget Paper No.3, Volume 2, p.599.*

Budget Estimates 1996-1997, New South Wales, *Budget Paper No.3, Volume 2, p.573.*

Budget Estimates 1995-1996, New South Wales, *Budget Paper No.3, Volume 2, p.619.*

ABS Consumer Price Index, Australia, *Cat. 6401.0, Australian Bureau of Statistics, December quarter, 1998, p.5.*

ABS Consumer Price Index, Australia, *Cat. 6401.0, Australian Bureau of Statistics, June quarter, 2000, p.5.*

1.18 In real terms, average expenditure under the Road Network Infrastructure Maintenance program for the period 1994-95 to 1999-2000 is \$575.9 million. Real expenditure has fluctuated around this average over the period of analysis with no upward or downward trend apparent.

1.19 The High Court decision of *Ha v New South Wales*, held by majority that duties of excise applied by a State were invalid under s.90 of the *Commonwealth Constitution Act 1901*. Following this ruling the Commonwealth collected a range of taxes, including petroleum excise, on behalf of the States under s.90 “safety net” arrangements. After 1 July 2000, mechanisms have been put in place to ensure that, as a minimum, the same financial results for motorists and the New South

Government are achieved. Further, that these funds will no longer be tied to road expenditure as was the case under the 3x3 legislation..³⁵

Commonwealth Government

1.20 Petroleum Products Excise provides a significant major source of revenue to the Commonwealth Government. Illustrated in the table below are estimates of total revenue from Petroleum Products Excise for the period 1995-96 to 1999-2000. Also depicted are Bureau of Transport Economics approximations of Petroleum Products Excise attributed to motor vehicles using public roads.³⁶ The Bureau of Transport Economics reports that there is no direct linkage between motor vehicle revenue and road construction and maintenance expenditure. Revenue collected by the Commonwealth Government is paid into consolidated revenue accounts, along with income from other sources.³⁷

1.21

Table 6

Commonwealth Government revenue from Petroleum Products Excise (\$m)

	1995-96	1996-97	1997-98	1998-99¹	1999-00¹
Petroleum Products excise from public roads	8053.7	8324.9	8535.3	8661.6	9496
Total revenue from Petroleum Products Excise	10224	10543	10895	10974	11204
Note:	1. Figures for 1999-2000 are estimates.				

Source:

Bureau of Transport Economics: Information Sheet 13 - Public Road-related Expenditure and Revenue in Australia, July 1999.

1999-2000 Budget Paper No.1, Commonwealth Government of Australia, pp. 6-3 and 6-8. (total for leaded, unleaded and diesel fuel excise)

1.22 Australian Automobile Association, total revenue from Petroleum Products Excise revenue from 1980 onwards, http://www.aaa.asn.au/f_search.htm

³⁵ *Ibid*, p. 12.

³⁶ Comprises total Petroleum Products Excise nett of estimates attributable to the diesel fuel rebate and excise sourced from agriculture and mining.

³⁷ Bureau of Transport Economics: Information Sheet 13 - *Public Road-related Expenditure and Revenue in Australia*, July 1999, p.1.

1.23 In its submission to the Standing Committee, the Department of Transport and Regional Services, the Commonwealth Government agency charged with administering Commonwealth Government expenditure on roads, outlined Commonwealth Government road expenditure by program type and by state and territory for the period 1995-96 to 1999-00.³⁸ The program types and results of the Standing Committee's analysis of this data are presented below:

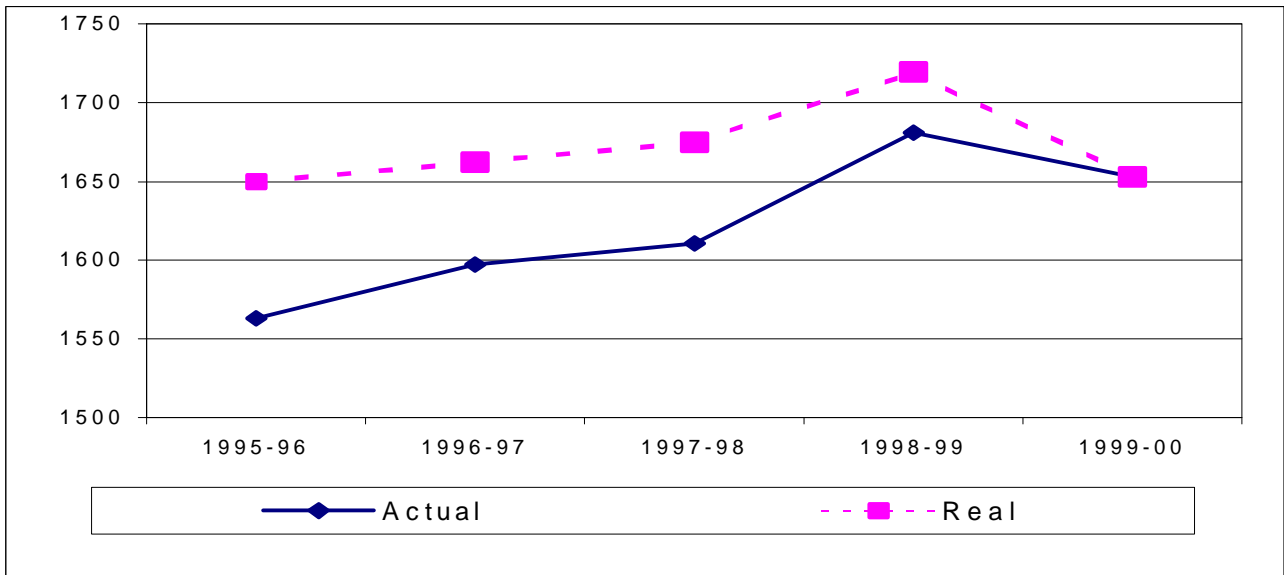
Program types:

- National highways;
- Construction
- Maintenance
- Roads of national importance;
- Land transport research;
- Bridge survey;
- Unallocated;
- Black spots;
- State financial assistance grants identified for roads; and
- Local government financial assistance grants identified for roads.

³⁸ Submission No.43 (including supplementary submission), Commonwealth Department of Transport and Regional Services.

Figure 1 and Table 7

Commonwealth Government expenditure for roads on all programs (actual and real terms) 1995-96 to 1999-00 (\$m)



	1995-96	1996-97	1997-98	1998-99	1999-00	Average
Actual Expenditure (\$m)	1562.9	1597.3	1610.8	1681.2	1652.8	1621.0
CPI - Sydney¹	118.7	120.4	120.5	122.5	125.3	
Real expenditure (\$m)² (1999-2000 dollars)	1649.8	1662.3	1674.9	1719.6	1652.8	1671.90
Note:						
1. An indicator for movements in inflation. Sydney, all groups, CPI Index for each relevant financial year is presented.						
2. Real expenditure is a derivation of actual expenditure that has been adjusted for inflation (using CPI) to 1999-2000 dollars. Real expenditure reflects the real movement of road maintenance expenditure over time.						

Figure and table derived from:

Submission No.43, Commonwealth Department of Transport and Regional Services

1.24 In actual and real terms, the trend reflects an increase in the level of total Commonwealth Government expenditure for roads since 1995-96 to a 1998-99 peak. Road expenditure for 1999-00 fell by \$66.8 million or 3.9% in real terms from the 1998-99 level.

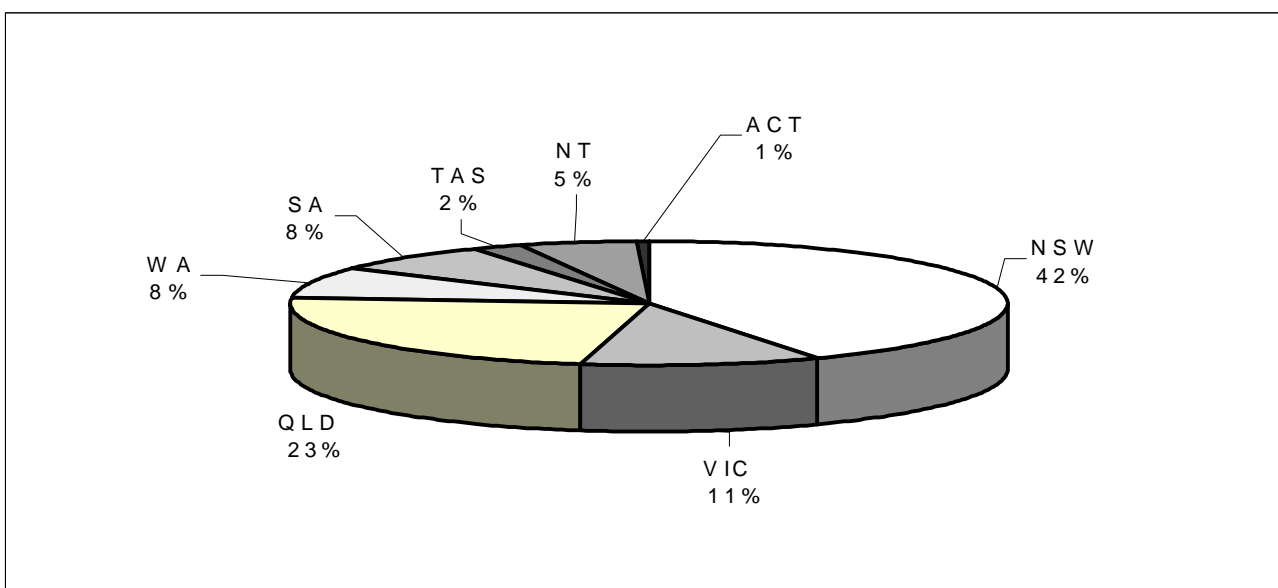
1.25 Of the Commonwealth Government's total expenditure (construction and maintenance) for Australian roads during the period 1995-96 to 1999-00, an annual

average of \$541.5 million or 33.4% in actual terms (\$558.6 million or 33.5% in real terms of the total was directed through State or local government operations in New South Wales.³⁹

1.26 The Commonwealth Government’s average expenditure allocation for road maintenance of national highways received by states and territories for the period 1995-96 to 1999-00 is outlined in Figure 2 and Table 8.

Figure 2 and Table 8

Average Commonwealth Government expenditure identified for road maintenance of national highways by State and Territory (actual and real terms), 1995-96 to 1999-00 (\$m)



	<i>NSW</i>	<i>VIC</i>	<i>QLD</i>	<i>WA</i>	<i>SA</i>	<i>TAS</i>	<i>NT</i>	<i>ACT</i>	<i>Total</i>
Average Actual expenditure (\$m)	137.1	34.4	75.5	25.7	24.6	7.3	16.5	2.0	323.2
Average Real expenditure \$(m)^{1, 2} (1999-2000 dollars)	141.5	35.6	77.9	26.6	25.4	7.6	17.0	2.1	333.7

Note:

1. An indicator for movements in inflation. Sydney, all groups, CPI Index for each relevant financial year is presented.
2. Real expenditure is a derivation of actual expenditure that has been adjusted for inflation (using CPI) to 1999-2000 dollars. Real expenditure reflects the real movement of road maintenance expenditure over time.
3. Pie chart depicts average actual expenditure.

Figure and table derived from:

Submission No.43, Commonwealth Department of Transport and Regional Services

³⁹ Figures derived from submission No.43 (including supplementary submission), Commonwealth Department of Transport and Regional Services.

- 1.27** The Standing Committee received conflicting views from the Commonwealth Department of Transport and Regional Services and the NSW Roads and Traffic Authority concerning appropriate approach to identifying levels of Commonwealth funding for road maintenance of national highways in New South Wales.
- 1.28** The Commonwealth Department of Transport and Regional Services schedules of expenditure provided to States and Territories, identify funding under the major program heading of “Asset Preservation.” At present, sub-programs under the Asset Preservation program include:
- Program maintenance,
 - Safety and urgent minor works, and
 - Flood repairs.
- 1.29** It appears that sub-programs to Asset Preservation have changed over time. In 1995-96, Asset Preservation included the sub-programs “Widening” and “Minor enhancements” although funding has not been allocated under these categories since that year. In 1998-99 “Flood repairs” was established as a category under the Asset Preservation program.
- 1.30** The Commonwealth Department of Transport and Regional Services provided road maintenance funding figures for national highways that corresponded to Asset preservation.⁴⁰
- 1.31** The NSW Roads and Traffic Authority preferred to use the sub-program of “Program Maintenance” as their reference point for road maintenance funding.

Table 9

Contrasting definitions of Commonwealth Government program funding for road maintenance of national highways used by the Commonwealth Department of Transport and Regional Services and the NSW Roads and Traffic Authority

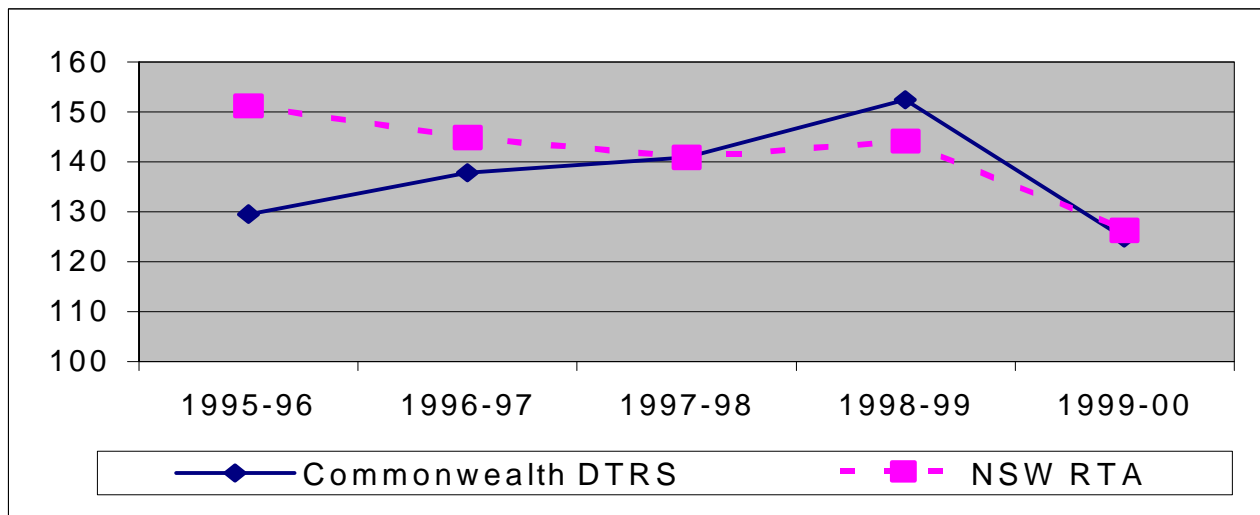
Commonwealth Department of Transport and Regional Services	NSW Roads and Traffic Authority
Asset Preservation (including) <ul style="list-style-type: none"> • Program maintenance • Safety and urgent minor works • Flood repairs 	<ul style="list-style-type: none"> • Program maintenance

⁴⁰ The term “preserve” in the *Australian Concise Oxford Dictionary* refers to “keep safe or free from harm, decay, maintain in its existing state or retain”, Oxford University Press, Melbourne, 1992, p.896.

1.32 The Standing Committee found that figures provided by the Commonwealth Department of Transport and Regional Services and the NSW Roads and Traffic Authority rarely matched when compared on a sub-program or in total basis for maintenance, construction, roads of national importance and black spots. Each approach drew different conclusions as the amount and trend in Commonwealth funding Instances where the not all Commonwealth Government funding can be utilised by the RTA within a financial year may also contribute to discrepancies in records of funding “provided” and funding “used”.

Figure 3 and Table 10

Commonwealth Department of Transport and Regional Services and NSW Roads and Traffic Authority’s views on Commonwealth Government expenditure for road maintenance of national highways in New South Wales (actual terms) 1995-96 to 1999-00 (\$m)



	1995-96	1996-97	1997-98	1998-99	1999-00	Average
Actual expenditure (\$m) (Commonwealth DTRS)	129.5	137.8	140.9	152.4	124.8	137.1
Actual expenditure (\$m) (NSW RTA)	151.2	144.9	140.9	144.1	126.3	141.5

Figure and table derived from:

Submission No.43, Commonwealth Department of Transport and Regional Services, and

NSW Roads and Traffic Authority correspondence 22 May 2000.

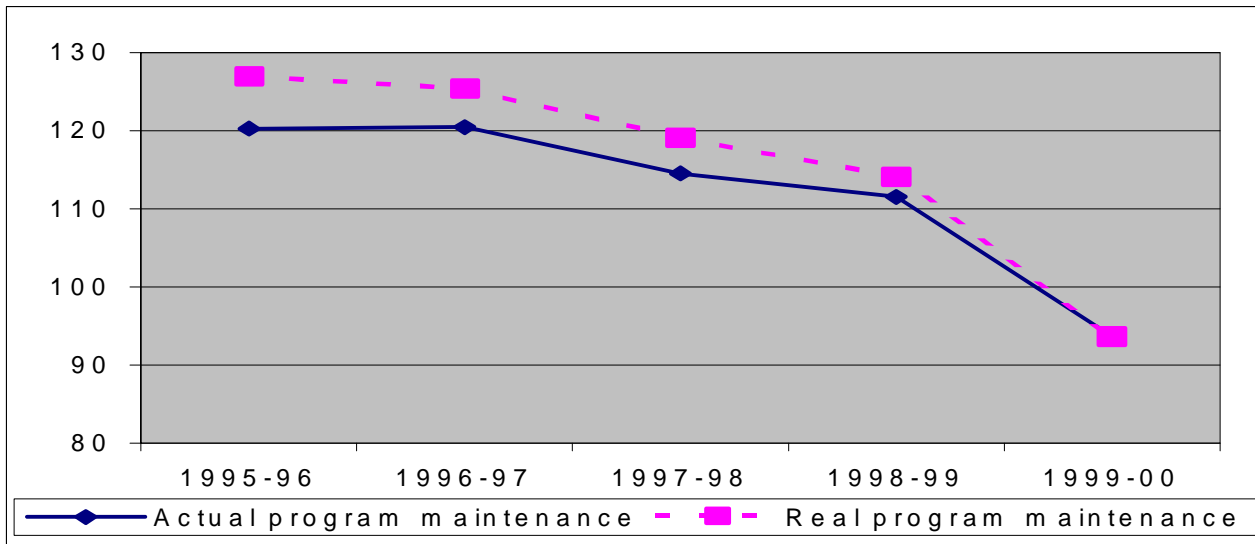
- 1.33** As demonstrated in Figure 3, the Commonwealth Department of Transport's submission depicts Commonwealth Government road maintenance expenditure for national highways in New South Wales as increasing in actual and real terms for the period 1995-96 to 1998-99. Included in Figure 3 is data supplied by the NSW Roads and Traffic Authority that reflects an overall decline in road maintenance expenditure for the same period.
- 1.34** In its submission to the Standing Committee, the Commonwealth Department of Transport and Regional Services, noted that allocations of \$10 million and \$9 million had been brought forward from the 1999-00 year to the 1998-99 year as an advance to undertake accelerated maintenance required due to flood damage.⁴¹ Without funding being carried forward, planned actual expenditure for 1998-99 and 1999-00 would have been \$133.4 million and \$143.8 million respectively.
- 1.35** While details from both Departments indicate that funding levels have fallen significantly in 1999-00, this should be considered in light of funding brought forward from 1999-00 to 1998-99.
- 1.36** The NSW Roads and Traffic Authority's consider the most appropriate measure for Commonwealth Government expenditure of road maintenance is "Program Maintenance", which is a sub-program of maintenance. The Program maintenance category refers to maintenance of the pavement. Historically funding for Program maintenance has been four to five times greater than the next largest maintenance sub-program category.⁴² The NSW Roads and Traffic Authority considers that funding under the maintenance sub-program of "Safety and urgent minor works" involves small capital expenditure activities such as establishment of roundabouts and installation of traffic lights, which do not necessarily constitute maintenance work. Commonwealth Government expenditure for the sub category Program maintenance is outlined in Figure 4 and Table 10.

⁴¹ Submission No.43, Commonwealth Department of Transport and Regional Services, p.6.

⁴² Over the period 1995-96 to 1999-00.

Figure 4 and Table 11

Commonwealth Government expenditure for the sub-program “Program Maintenance” for national highways in New South Wales (actual and real terms) 1995-96 to 1999-00 (\$m)



	1995-96	1996-97	1997-98	1998-99	1999-00	Average
Actual expenditure (\$m)	120.3	120.5	114.5	111.5	93.7	112.1
CPI – Sydney¹	118.7	120.4	120.5	122.5	125.3	
Real expenditure (\$m)² (1999-2000 dollars)	126.9	125.4	119.1	114.1	93.7	115.8

Note:
 1. An indicator for movements in inflation. Sydney, all groups, CPI Index for each relevant financial year is presented.
 2. Real expenditure is a derivation of actual expenditure that has been adjusted for inflation (using CPI) to 1999-2000 dollars. Real expenditure reflects the real movement of road maintenance expenditure over time.

Figure and table derived from:

NSW Roads and Traffic Authority correspondence dated 22 May 2000 and 25 August 2000.

1.37 In actual and real terms, funding for Program Maintenance has declined each year over the period 1995-96 to 1999-00.

Efficiency drivers in the provision of road maintenance

- 1.38** Efficiency drivers for road maintenance are not unique to the road industry but rather tend to be generic in nature and faced by all government service delivery agencies. They include improving transparency in the cost of service delivery, reducing overall operating costs, improving organisational productivity raising standards of quality, tightening limits on government budget allocation and increasing accountability to the New South Wales public who are the agency's shareholders and customers.
- 1.39** The Minister identified road maintenance and development, IT delivery, and the realignment of non-core business support services as areas for reform under Stage 2 of the NSW Roads and Traffic Authority's Change Management Program.⁴³ Discussion of efficiency drivers as applicable to road maintenance and competitive road maintenance tendering is presented below.

Transparency and accountability in road maintenance service delivery

- 1.40** Transparency is recognised as an important instrument in improving organisational efficiency. When Compulsory Competitive Tendering (CCT) is introduced to the public sector, an additional principal-agent relationship results⁴⁴ and service delivery may become the responsibility of another party. In its submission to the inquiry, the Independent Commission Against Corruption highlighted the need to ensure accountability and probity in the competitive tendering process:

“Public sector agencies need to have sound policies and procedures in place to ensure probity issues and corruption prevention strategies are considered and included at each stage of a project. Such an approach should reduce the risk of favouritism and improper practices occurring, ensure best value for money and reduce opportunities for corruption.”⁴⁵

⁴³ NSW Roads and Traffic Authority, “Change Management Program Stage 2”, Bulletin No.1, July 1999, p.1.

⁴⁴ Industry Commission, Competitive Tendering and Contracting by Public Sector Agencies, Report No.48, 24 January 1996, p.85.

⁴⁵ Submission No.12, Independent Commission Against Corruption, p.2.

1.41 During its inquiry into CCT in 1996, the Industry Commission found that it was possible for CCT to enhance accountability by requiring contracting agencies to:

- clearly specify service delivery requirements so it is easy to identify any failure by the contractor or the contracting agency;
- clearly specify criteria on which a contractor's performance is measured and monitored;
- establish a mechanism for individuals to seek redress where there is dissatisfaction with the service delivered.⁴⁶

1.42 In December 1999, the New South Wales Auditor-General produced a Performance Audit Report on the NSW Roads and Traffic Authority. The Report indicates that Austroads, the Productivity Commission and the OECD endorse the principles that road providers should be directly accountable to road users and that there should be competition in the supply of road services.⁴⁷ In accordance with this, the Report recommended that the Roads and Traffic Authority:

“continue to pursue its recent strategies including competitive tendering to achieve better value for road maintenance expenditure.”⁴⁸

1.43 In response to the above recommendation, the NSW Roads and Traffic Authority indicated it was currently proceeding with a competitive tendering initiative previously announced on 28 May 1999 as an initial step in the introduction of business like arrangements.

“These arrangements are all directed towards improving the accountability and an ability to demonstrate value for money.”⁴⁹

1.44 The Minister outlined the benefits that the road maintenance reform package (including the CCT component) would generate for accountability in road maintenance. During his appearance before the Budget Estimates hearing of 16 September 1999, the Minister, in response to a question from the Hon. Ian Cohen, made the following comments:

⁴⁶ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, Report No.48, 24 January 1996, p.85

⁴⁷ The Audit Office of NSW, *Performance Audit Report, Roads and Traffic Authority of NSW – Planning for Road Maintenance*, December 1999, p.53.

⁴⁸ The Audit Office of NSW, *Performance Audit Report, Roads and Traffic Authority of NSW – Planning for Road Maintenance*, December 1999, p.6.

⁴⁹ The Audit Office of NSW, *Performance Audit Report, Roads and Traffic Authority of NSW – Planning for Road Maintenance*, December 1999, p.10.

“I actually think that first we have to have an accountability process, which we do not have at the moment. Apart from making profit on gravel pits, some councils are used to the old DMR/RTA approach whereby they might get \$400,000 to do some maintenance on a patch of road and when the money runs out just put their hand out for more money.

What we will be saying to councils and our own RTA work crews is: “When you get an allocation of money for a section of road, you are expected to complete the work.” That is very important.”⁵⁰

1.45 Further, the Minister stated:

“I have stewardship of the funds for which I am responsible. The public, who are my shareholders, expect me to give a good return. At the moment, I do not believe that I am doing so. Although I am not certain of the extent, this process [CCT] will make disbursements far more accountable.”⁵¹

1.46 It was the Minister’s view that the introduction of competitive tendering facilitated the accountability process.

“For the first time in a very long while we are actually scrutinising the accountability of how much it actually costs to maintain our State roads.”⁵²

Road maintenance cost reduction

1.47 The NSW Roads and Traffic Authority identified competitive tendering as a means of reducing road maintenance costs. In correspondence to the Standing Committee the Authority stated that:

“The RTA’s 1999 announcement regarding competitive tendering was driven by the RTA’s Strategic Plan, *The Journey Ahead*, which establishes targets for the delivery of the RTA’s programs whereby 95% of all services will be procured at market rates or better by 2003 by either RTA, council, or private service providers.

The competitive tendering announcement was also influenced by growing evidence from across the country that introducing competitive pressures into the road maintenance market can deliver substantial savings. For example:

⁵⁰ *Legislative Council General Purpose Standing Committees, Examination of Budget Estimates for 1999-2000*, 52nd Parliament, Second Session, pp.340-341.

⁵¹ General Purpose Standing Committee No. 4, *Examination of Budget Estimates for 1999-2000*, 16 September 1999, p.341.

⁵² General Purpose Standing Committee No. 4, *Examination of Budget Estimates for 1999-2000*, 16 September 1999, p.339.

- The introduction of contracts for the management and delivery of maintenance (by schedule of rates contracts) in south-western Sydney during the 1990s significantly reduced costs, and also stimulated improved productivity in RTA workforces.
- The Sydney Performance Specified Maintenance Contract (PSMC) results in a saving to the RTA of \$101m (or 35%) over 10 years.
- A competitive tendering initiative by Transit NZ in 1995 has resulted in total annual maintenance expenditure efficiency gains of \$20m to \$25m.
- The Tasmanian Department of Infrastructure, Energy and Resources (DIER) has reported savings of approximately 10% for combination lump sum/schedule of rates contracts, and further savings of 20% (\$20m) for a 10 year PSMC. The [Tasmanian] Government has committed the savings to acceleration of capital improvements to the state road system.
- A PSMC strategy in Western Australia is expected to deliver savings of more than \$40m per annum, to be reinvested in the capital improvement program.

In general, there is a trend towards contracting maintenance delivery by all the State road authorities, and some councils have also adopted contracting for maintenance of Regional and Local roads. The evidence is that PSMCs provide the greatest potential for cost savings.⁵³

Productivity improvements

- 1.48** The NSW Roads and Traffic Authority viewed CCT as an instrument for driving road maintenance service delivery providers, especially Authority road crews and local councils, to achieve productivity improvements. The NSW Road and Traffic Authority's newsletter to its staff concerning Stage 2 of the Authority's Change Management Program outlined the rationale for the program's introduction as:

...Stage 2 stems from the need to attain greater efficiencies and have a greater commercialised business focus to be competitive with the external environment.⁵⁴

- 1.49** In a media release on 30 November 1999, the Minister outlined the NSW Roads and Traffic Authority's initial position on compulsory competitive tendering for state roads. This position was to have the following productivity type benefits:

- To improve the quality of maintenance work on State roads/National Highways;

⁵³ Correspondence from Mr Paul Forward, Chief Executive, NSW Roads and Traffic Authority, dated 28 February 2000, pp.2-3.

⁵⁴ NSW Roads and Traffic Authority, "Change Management Program Stage 2", Bulletin No., July 1999, p.1.

- To encourage RTA work crews and councils to improve work site safety and environmental standards applying to work on State roads and National Highways..⁵⁵

New South Wales Government Service Competition Guidelines

1.50 In 1997, the Service Competition Project Advisory Committee of the Council on the Cost of Government released the New South Wales Government Service Competition Guidelines. The Guidelines replace the Competitive Tendering and Contracting Out Guidelines, the Competitive Tendering and Contracting Out Costing Guidelines, and the Contracting and Market Testing Policy produced by the Premier's Department in 1991, 1992 and 1993 respectively.⁵⁶ The primary objective of service competition as a policy instrument is to achieve:

...best value for money in the performance of government activities and the provision of services.⁵⁷

1.51 These New South Wales Government Guidelines refer to the application of indirect and direct competitive forces to generate better value for money in the provision of government goods and services. Indirect competition involves in-house comparison or benchmarking of goods or services to encourage the provision of equivalent of better levels of performance.⁵⁸ Direct competition involves the allocation of work through a tender process that rewards tenderers that offer the best value for money.⁵⁹

1.52 The Guidelines stipulate that competitive tendering should only be implemented once indirect competitive measures have been pursued including, in-house comparisons, benchmarking or opportunities for joint arrangements with government agencies providing common services.⁶⁰ In addition, the Service

⁵⁵ The Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, Media release, "State Road Maintenance Jobs Protected", 30 November 1999, p.2.

⁵⁶ *Service Competition Guidelines, New South Wales Government*, NSW Council on the Cost of Government, 1997, p.ii.

⁵⁷ *Service Competition Guidelines, New South Wales Government*, NSW Council on the Cost of Government, 1997, p.5.

⁵⁸ *Service Competition Guidelines, New South Wales Government*, NSW Council on the Cost of Government, 1997, p.5.

⁵⁹ *Service Competition Guidelines, New South Wales Government*, NSW Council on the Cost of Government, 1997, p.5.

⁶⁰ *Service Competition Guidelines, New South Wales Government*, NSW Council on the Cost of Government, 1997, p.2.

Competition Guidelines identify the following circumstances under which competitive tendering activities are most appropriate:

- [Where] the normal annual cost of the activity, or combination of activities, exceeds \$250,000, subject to other relevant factors, such as risks and other constraints; and
- Where in-house cost levels are estimated as higher than 8-12% of viable alternative service providers, based on the best available information.⁶¹

National Competition Policy

1.53 In correspondence to the Standing Committee, the National Competition Council (NCC) outlined its role as follows:

The NCC's role is established through the 1995 inter-governmental agreements setting up National Competition Policy. In brief, the NCC is a policy/advisory body, which advising [*sic*] on the progress achieved by governments against their NCP commitments. These commitments are also established in the 1995 inter-governmental agreements, principally the Competition Principles Agreement and the Agreement to Implement the National Competition Policy and Related Reforms.⁶²

1.54 Importantly the NCC indicated while road transport is a component of National Competition Policy, the Policy makes no reference to road maintenance or the process of CCT.

The NCP Agreements make no reference to competitive tendering. So, under NCP, there is no obligation on governments to contract out service provision, whether road maintenance or other services. The fact that governments do competitively tender is a decision which they take, usually for efficiency reasons, but unrelated to NCP.

The NCP road transport reforms relate to changes intended to introduce greater uniformity/consistency to regulation (eg vehicle registration arrangements, driver licensing, roadworthiness and other safety matters etc).

Accordingly, the NCC has no role to play in relation to competitive tendering.⁶³

⁶¹ *Service Competition Guidelines, New South Wales Government, NSW Council on the Cost of Government, 1997, p.2.*

⁶² Correspondence from Mr Ross Campbell, dated 10 March 2000, p.1.

⁶³ Correspondence from Mr Ross Campbell, dated 10 March 2000.

Committee analysis

- 1.55** The May 1999 decision by the NSW Roads and Traffic Authority to implement CCT for road maintenance services was contrary to the policy advice of the New South Wales Government's Service Competition Guidelines. The application of these guidelines would have included the implementation of in-house improvement arrangements or benchmarking measures to improve local council performance in the provision of New South Wales Government funded road maintenance. Subsequent action by the Minister on 30 November 1999 directing the NSW Roads and Traffic Authority to introduce a benchmarking arrangement for road maintenance ensured compliance with New South Wales Government guidelines.
- 1.56** The New South Wales Government's Service Competition Guidelines outline clear directions and processes for New South Wales Government agencies to implement competition policy through indirect and direct means.

Recommendation 1

The Standing Committee recommends the NSW Roads and Traffic Authority adhere to the NSW Service Competition Guidelines in its establishment of benchmarking practices for maintenance of State funded roads.

- 1.57** The Committee considered road maintenance funding arrangements between the Commonwealth and New South Wales Governments over the period 1995-96 to 1999-00 and derived the following findings:
- Total Commonwealth Government funding for roads in Australia, across all construction and maintenance programs averaged \$1.62 billion in actual terms, and \$1.67 billion in real terms. A trend towards higher levels of Commonwealth Government funding over the period was observed.
 - Approximately 33.5% or \$543.6 million in actual terms (\$559.4 million in real terms) of total Commonwealth Government funding for roads in Australia was applied through State or local government administrators in New South Wales.
 - New South Wales received on average 42% of Commonwealth Government funding for road maintenance of national highways. There was no apparent trend towards an increase or decrease in New South Wales' proportion.
 - Data sets presented by the Commonwealth Department of Transport and Regional Services and the NSW Roads and Traffic Authority depicting Commonwealth Government funding for maintenance of national highways in New South Wales was conflicting. The former presented an overall slight increase in funding, the latter an overall decline.

- Commonwealth Government funding for the maintenance sub category Program maintenance declined over the period examined.
- The definition of maintenance used by the Commonwealth Department of Transport and Regional Services for the 1999-00 year includes sub-program categories of “Program maintenance”, “Safety and urgent minor works” and “Flood repair”. The Department ties funding to each sub-program for the transfer of funds to States and Territories, which can only be varied on application to and approval by the Commonwealth.
- An expansion of maintenance sub-programs has occurred, such as the inclusion of a third category of “Flood repairs” in 1999-00, which creates a numeric distortion leading to the distribution of similar maintenance funding levels across additional sub-programs. As a result, trending and comparison of sub-program funding levels between years is distorted.
- The lumpy or irregular nature of road maintenance expenditure may contribute to accounting variations between funds available for road maintenance and expenditure on road maintenance.

1.58 The Standing Committee also considered whether the trends in Commonwealth Government funding for road maintenance of national highways over the period 1995-96 to 1999-00 generated impacts on regional development in New South Wales. These considerations were limited to the extent that none of the submissions the Committee received addressed this issue.

1.59 The NSW Roads and Traffic Authority and local councils conduct 70% and 23% respectively of Program maintenance on national highways. These organisations and private contractors are most likely to be affected by any decline in the level of commonwealth funding for Program maintenance. Where maintenance service providers cannot absorb a loss in revenue without the need to shed employees, transfer employees to non-maintenance positions or cross subsidise maintenance operations from other revenue sources, adverse economic and social consequences to the regional economy are likely to result. Maintenance funding is related to the condition of the road and varies as the need varies. Funding will always be cyclical and this is accepted by service providers.

1.60 Conversely, analysis undertaken by the Standing Committee on total maintenance funding for national highways indicated a slight upward trend over the period 1995-96 to 1999-00. This infers a possible positive impact on regional economic development. Note is made that the introduction and funding of flood repair as an additional maintenance sub category appears to be to the detriment of funding for Program Maintenance.

Chapter 2 ROAD MAINTENANCE DELIVERY IN OTHER JURISDICTIONS

No uniform approach to road maintenance service delivery has been implemented across the Australian States and territories. Each jurisdiction has developed different delivery methods ranging from single invitation contracts with state authorities or local councils through to fully competitive tendering processes. A cross section of delivery methods in several states and Territories is outlined to provide a broad view of approaches taken in other states. The Standing Committee is grateful to these States and Territories for their contribution to the Inquiry.

South Australia⁶⁴

- 2.1** Transport SA (TSA) is the principal road authority in South Australia, having responsibility for the care, control and management of the State's main road network. Prior to the introduction of competitive tendering of road maintenance, TSA was the principal provider of road maintenance services, employing a large day labour workforce to maintain its network in rural and urban areas of South Australia.
- 2.2** In 1996-97, TSA introduced competitive tendering for road maintenance contracts. The major objective of this first round was to establish a road maintenance industry. The first round of this program entailed TSA tendering out 28 main road network contracts of three-year duration. These contracts covered routine maintenance activities, emergency responses, and the maintenance of safe and trafficable roads. In awarding contracts, TSA gave consideration to the "total cost to government", taking into account costs such as separation packages and the economic development opportunities offered by the contractor. This meant that contracts were not always awarded to the lowest bidder.
- 2.3** The first round of the competitive tendering of road maintenance resulted in the following:
- 20 contracts won by the public sector (the road authority maintenance workforce having established a business unit to compete for contracts), and 8 by private sector contractors;
 - significant efficiency savings in maintenance operations for TSA;

⁶⁴ Submission No.29, Transport SA

- a general reduction in the TSA day labour workforce, and in-plant holdings at maintenance depots. In spite of this, TSA asserted that the social and economic impacts were minimal, even for rural towns;⁶⁵ and
- little interest from local government in the tendering process.

2.4 An internal review of Round 1 maintenance contracts identified a number of issues which need be addressed in preparation of Round 2 contracts:

- clearer definitions of network, responsibilities, activity specifications, extensions of contracts;
- Round 1 contract periods were too short and gave rise to a perception that repairs were short term ('wall-papering'), rather than long term;
- the need to evaluate the auditing process, focussing on systems and processes rather than on products or defects in the field;
- ensure sufficient and appropriate resources and information are provided to the successful contractors;
- provisions to reward performance and penalise poor performance;
- a faster, simpler and more open Tender assessment process;
- improve handling of claims from the public resulting from the work of the contractors; and
- ensure that specifications for the works are flexible and sufficient in scope to incorporate the need for 'catchup' work and contingent repairs.

2.5 In general TSA felt that the introduction of competition was the most effective process for the delivery of efficiencies in road maintenance, and more effective overall than preferred supplier arrangements.

2.6 Issues arising from the first round will be taken into account in the development of the second round of the program, tendering for which commenced early in 2000. The overall aim of TSA in Round 2 is to further extend and enhance the competitive environment and level of innovation. The TSA seeks to provide additional opportunities for industry while minimising the risk to the State and Federal Governments, as well as managing the involvement of in-house resources from the Maintenance Services Business Unit. TSA in the second round intends to:

⁶⁵ Without a State Government retrenchment policy, TSA believes that the next round may present some difficulties if the agency's workforce were not successful in competition with the private sector. There is the prospect of "surplus" government employees in rural and regional South Australia (see point below on "excising" areas from the competitive process).

- create maintenance areas two or three times larger than Round 1, with the 28 areas of Round 1 combined into about 12;
- extend the contract duration from three to five years;
- encourage small to medium enterprise participation through teaming and subcontracting;
- provide more opportunities for local government involvement;
- invite private sector contractors to 'prequalify' for works, based on their technical capacity, quality, environmental and OH&S management systems;
- continue liaison with industry and unions, plus hold further discussions with the Federal Government;
- maintain a road authority workforce, operating under contract conditions, to continue to act as an 'informed purchaser' with the capability to trial new and innovative maintenance techniques and contract mechanisms;
- implement a transition process where a region which may suffer adversely from the introduction of competitive tendering is "excised" from the competitive process until employee numbers decrease through attrition and redeployment. The Yorke Peninsula is one area excised from the competitive tendering process, with local council undertaking road maintenance works; and
- bundle work packages together (reactive, routine, specific, and network/asset maintenance).

2.7 TSA stress that the process is still evolving, and expects major learning and change to continue. Some future directions flagged by the TSA include:

- market research to determine maintenance intervention levels acceptable to the community;
- contracts in which maintenance intervention levels vary over time to permit assets to be brought back to a desired condition over a longer period; and
- a longer term contract in which the contractor makes decisions regarding reseals and other rehabilitation techniques.

Victoria⁶⁶

- 2.8** VicRoads is a corporatised Victorian State Government agency responsible for the management of the State's arterial road system.
- 2.9** VicRoads has progressed from a totally in-house road maintenance system to one which has over 60% of the work awarded by competitive bidding processes. In addition to greater use of external providers for road maintenance tasks, VicRoads has implemented commercial arrangements for in-house service providers.
- 2.10** As an example, the experiences principally of the VicRoads Eastern Region were as follows:⁶⁷
- 10 lump sum contracts directly administered by VicRoads staff;
 - 4 provider group agreements using in-house personnel; and
 - 3 local council agency agreements using in-house workforces.
- 2.11** Specifications have been transformed from method-based to performance-based, with emphasis on preventative maintenance, payment for outcomes achieved and objective measurement of performance. Prequalification is essential to eliminate unsuitable tenderers. Road maintenance contracts range from \$0.5m per year to \$3.0m per year, the majority of which are run by local contractors employing local labour.
- 2.12** VicRoads indicates that there has been an overall reduction in the average unit rate for routine maintenance since 1994-95 and savings of around 16%.⁶⁸ The physical effectiveness from its road maintenance practices over the past five years are attributed to:
- ongoing benchmarking;
 - productivity gains achieved through competitive tendering and more efficient packaging of contracts on an area wide basis;
 - biennial monitoring of the condition of the entire arterial road network; and
 - targeting of maintenance works to gain maximum benefit in terms of network life.

⁶⁶ Submission No.36, VicRoads; Correspondence from VicRoads to Chair dated 1 March 2000.

⁶⁷ ARRB Transport Research, Road Maintenance by Contract – Proceedings of the Austroads Workshops, August 1998, p.19.

⁶⁸ Correspondence from VicRoads to Chair, dated 1 March 2000, p.1.

2.13 These processes have resulted in significant reductions in roughness of busy urban roads and maintenance of smooth conditions on National and State Highways and reductions in vehicle operating costs, especially on major freight routes.

Queensland⁶⁹

2.14 The Department of Main Roads is the State Government agency responsible for road maintenance in Queensland. Routine road maintenance is conducted on a contractual basis, largely by local councils and the Road Transport and Construction Service (RTCS) which is the commercialised workforce of Main Roads. While some other states have moved towards open competition as the predominant means of routine maintenance delivery, Queensland took an approach that it believes reflects concern for rural community employment,⁷⁰ protects existing workforces and provides stability to communities. Where local councils do not wish to conduct routine maintenance works, these work programs are offered for open competition.

2.15 The Road Maintenance Performance Contracts (RMPCs) are sole invitee relationship contracts that are based on a schedule of rates and quantities with a capped total budget. The RMPC is fixed contract for one year, with a guaranteed renewal period of up to four years, subject to satisfactory performance by the contractor and the achievement of the set productivity target. For the 1998-99 financial year, there were 115 Road Maintenance Performance Contracts with local councils, 28 contracts were undertaken by RTCS and seven contracts are subject to an open tender process.

2.16 Open tender contracts are used for benchmarking purposes to obtain value for money from sole invitee RMPCs. The unit rates from open competition contracts, with due allowance made for differences, are used by Main Roads in negotiating unit rates with local councils and RTCS.

2.17 The RMPCs focus is on improving efficiency through a price negotiation process and performance based operating environment. The key features are:

- contractual rather than agency relationship;
- payment for work output rather than actual cost (input);
- strong emphasis on planning of maintenance and for efficiency gains;
- preferred supplier needs to demonstrate that it represents “best value”, which is assessed in regard to performance and achievement of productivity targets;

⁶⁹ Submission No.42, Queensland Department of Main Roads.

⁷⁰ ARRB Transport Research, Road Maintenance by Contract – Proceedings of the Austroads Workshops, August 1998, p.22.

- a partnering approach has been adopted in the administration of contractual arrangements; and
- a stewardship role for the contractor.

2.18 As part of the stewardship role, the contractor acts professionally in the department's interest to ensure:

- that maintenance funds are wisely invested and that the asset is maintained in the department's best interests;
- that discretionary changes to the agreed network schedule are sound and justifiable; and
- that maintenance concerns are dealt with at contractor level and only referred to the department when necessary.

2.19 As part of Queensland's Road Reform initiative, a State-wide target of 20% was set to be achieved over five years from the 1995-96 financial year. Productivity gains are achieved through unit rate price reduction as well as through other initiatives which increase the life of the finished work, by changing work practices and improving work standards, work quality and response times. The productivity gains for the 1995-96 and 1996-97 were on average 5.3% and preliminary calculations between 1996-97 and 1997-98 financial years indicated a 4% to 5% improvement.

ACT⁷¹

2.20 ACT Urban Services is the Government agency responsible for the management of roads in the ACT. To date, road maintenance services were performed by Totalcare Industries, which is a company wholly owned by the ACT Government. Road maintenance services were originally transferred to Totalcare after a restructure of the Department of Urban Services to separate purchaser and provider functions.

2.21 ACT is in the process of change with its road maintenance delivery. The tied arrangement between the Department and Totalcare has now ceased and all of the Department's road maintenance services will be subject to market testing through competitive tendering.

⁷¹ Submission No.38, ACT Department of Urban Services.

Northern Territory⁷²

- 2.22** The Department of Transport and Works is the Government agency responsible for road maintenance in the Northern Territory. The Department indicates that the Northern Territory was probably the first Australian State/Territory to move to full delivery of its roads maintenance program by private contractors.
- 2.23** The Northern Territory initially engaged civil construction contractors as an adjunct to the Government workforce, however it subsequently recognised the value of having supplementary delivery capacity from competent service providers. Costs of personnel administration, plant, equipment and wages costs were significant and these costs did not reduce during periods of reduced activities caused by program cuts or seasonal weather restrictions. By contrast, contractors were only utilised and paid when work was undertaken and had the mobility and ability to diversify when required. The gradual transition from day labour to private contractors was then introduced. Plant holdings were reduced and the labour force allowed to decrease through natural attrition.
- 2.24** Contracts are in period form, usually for a period of not less than a year and not more than 3 years. Recently some services were contracted on a Schedule of Rates basis. A number of performance based contracts have also been entered into. Advantages achieved include reducing over-servicing which can occur with Schedule of Rates contracts and encouraging innovation through specifying required outcomes rather than processes. The suitability of performance based contracts is currently being assessed. The Northern Territory has resisted the temptation to undertake large and long term contracts for all-inclusive maintenance as this is claimed to be the key to maintaining flexibility, regional employment and a level of control.
- 2.25** The Department indicated that the concern held by local communities that local employment and service delivery would diminish with the loss of day labour did not materialise. Many of the contractors currently engaged in public works were themselves, or have employees who were, day labour employees. Other ex-day labour staff accepted the challenge of changed roles and trained to become technical officers with the Government and supervise works undertaken by contractors. There has also been considerable generation of civil contracting capacity.
- 2.26** The servicing of maintenance requirements has been achieved with a general improvement of timeliness and quality. The flexibility of private contractors has enabled teams to mobilise to attend emergencies at any hour and their freedom from Government regulations with regard to prior approvals for overtime and travel etc., provides a much more versatile servicing agreement.

⁷² Submission No.41, NT Department of Transport and Works.

Chapter 3 IMPACTS OF CCT ON ROAD MAINTENANCE

The major stakeholders

The stakeholders with an interest in CCT of road maintenance works in New South Wales can be identified into four groups:

- The Roads and Traffic Authority – concerned with cost effective access to roads and services across the State;
- Local Government – concerned with cost effective access to services and a major provider of employment in regions;
- Employees and ratepayers – who are concerned with local employment and provision of quality services; and
- Private contractors and consultants – concerned with improving their profitability and providing customer service.

3.1 The impact of CCT on road maintenance affects each of these stakeholders in various ways that impose negative impacts on some while conferring benefits on others. It is these implications which must be examined when evaluating the merits of CCT.

Service Quality

3.2 Where a change in service delivery methods is considered, the impact on quality of service is an issue that requires examination. In particular, the private sector will argue that the introduction of competition will provide better service quality and organisations threatened by potential competitors will naturally argue that quality will deteriorate if costs are reduced. These views were evident in the submissions received.

Concept of quality

- 3.3** The Industry Commission Report on competitive tendering identified a number of meanings for quality in respect of service delivery and cited a definition from the Department of Administrative Services:

“A quality product or service is the one best suited to the intended purpose rather than the best money can buy. Essentially, ‘quality’ means fitness for purpose, or conformance to requirements.”⁷³

The evidence presented to the inquiry

- 3.4** A variety of accounts regarding quality were submitted to the Inquiry suggesting both quality improvements and deterioration as possibilities. The majority of submissions which addressed the issue of quality did not provide examples of where CCT was detrimental or beneficial to quality of road maintenance but many did place a significant emphasis on “how” quality levels could be achieved (discussed at 3.9)

- 3.5** The few submissions received which expressed concern about deterioration in quality did not cite examples of such deterioration resulting from CCT of road maintenance. One submission which did express concern for quality deterioration cited the Victorian experience and suggested that CCT does not necessarily contribute to an improvement in contracted outcomes and that:

“...there is ample evidence within the Victorian Local Government CCT Program that:

- a lack of management understanding of the detail and intent of many services;
- inaccurate, incomplete contract specifications;
- ineffective quality assurance systems by contractors; and
- a lack of contract supervision by Councils and other authorities produced a quantifiable reduction in the quality of road maintenance services in some parts of the State.”⁷⁴

- 3.6** Transfield submitted that, while in its experience competitive tendering has brought about a significant reduction in costs, there has not been any compromise in quality.

⁷³ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, Report No.48, 24 January 1996, p.106, citing Submission No.140, Department of Administrative Services, p.17.

⁷⁴ Submission No.40, Alf Grigg & Associates, p.7.

The submission then identified the measures implemented to ensure quality is maintained (see 3.12).⁷⁵

Other evidence on quality

3.7 The extensive inquiry conducted by the Industry Commission included an examination of empirical studies to provide some evidence about the impact of CCT on service quality. Of the Australian studies examined, two indicated some decline in quality and four found either an improvement or no evidence of deterioration in quality. Of the six overseas studies examined (three from the United States and three from the United Kingdom), the findings varied although there was some evidence of quality deterioration.⁷⁶

3.8 Of the evidence presented before the Industry Commission, a range of anecdotal information was presented about the impact on service quality. The Industry Commission concluded that:

“From the wealth of material that has been examined in the inquiry, the Commission concludes there are examples of where quality has gone up, gone down and remained the same after introduction of CTC.”⁷⁷

Key factors affecting quality

3.9 Several major issues may be identified as key factors that may influence quality achieved with CCT. The two major factors affecting quality addressed by submissions to this inquiry related to the effectiveness of the CCT process, and the benefits derived from technology and innovation.

Effectiveness of the CCT process

3.10 A number of submissions addressed the issue of achieving quality from an adequate CCT process through:

- contract specification;
- selecting a contractor; and

⁷⁵ Submission No. 37, Transfield Maintenance, p.8.

⁷⁶ Industry Commission, Competitive Tendering and Contracting by Public Sector Agencies, Report No.48, 24 January 1996, pp.107-109.

⁷⁷ Industry Commission, Competitive Tendering and Contracting by Public Sector Agencies, Report No.48, 24 January 1996, pp.109-113.

- performance monitoring a contractor.

3.11 In relation to round one of its competitive tendering of road maintenance contracts, the submission from Transport SA indicated that a number of qualitative factors were learned from the initial tendering process:

“...the major learning and change that has resulted is that road maintenance is now more focussed and is undertaken strictly in accordance with a specification document. This specification is structured around effective asset management principles and meeting community needs.”⁷⁸

3.12 Transfield identified several initiatives implemented to maintain quality including:

- Development of key performance indicators;
- Benchmarking between projects;
- Ongoing condition monitoring; and
- Annual reporting on asset value.⁷⁹

3.13 The submission by CSR Emoleum emphasised the benefits of cost effective asset maintenance by specifying quality standards:

“All road agencies who have adopted PSMC⁸⁰ have sought to benefit from the locking-in of budgets and standards, such that their valuable assets are maintained at the appropriate standard for a long term. This is consistent with most government budget strategies which seek to maintain the value of public assets and give priority to that maintenance.”⁸¹

3.14 The submission from Alf Grigg & Associates also suggested an externally audited quality assurance process to assist in improving the quality of road maintenance:

“The prequalification system as proposed by the RTA, together with effective, externally audited quality assurance project management and business systems, will significantly assist in the improvement of the quality of road maintenance of State and other roads.”⁸²

⁷⁸ Submission No.29, Transport SA, p.4.

⁷⁹ Submission No. 37, Transfield Maintenance, p.8.

⁸⁰ Refer to 3.41 for an explanation of Performance Specified Maintenance Contracts (PSMCs)

⁸¹ Submission No.25, CSR Emoleum, p.6

⁸² Submission No.40, Alf Grigg & Associates, p.7.

- 3.15** The Report of the Industry Commission into Competitive Tendering and Contracting (CTC) stated that quality standards were more a function of proper process rather than competitive tendering itself:

“The Commission therefore remains of the view that good application of process (either in selecting the service for CTC or in subjecting the service to CTC) is achievable and that unplanned quality reductions are primarily a result of poor application of process rather than CTC per se.”⁸³

- 3.16** On the weight of evidence presented to the Standing Committee, it is apparent that any attempt to ensure quality of road maintenance from the commencement of the tendering process necessitates the clear specification of requirements in the contract, selection of an appropriate contractor and conducting effective performance management or auditing of the contract.

Technology and innovation

- 3.17** The issue of technology and innovation as a means of achieving service quality was raised in several submissions from the private sector.

- 3.18** CSR Emoleum was strongly in favour PSMCs as the preferred contract structure to assist development and adopt new technologies as the resulting lump sum contracts permit such necessary expenditure:

“[T]he scope of performance contracts provide far greater opportunity for the contractor to draw on its own technical expertise (which is now commensurate with most road agency expertise), and international technologies, to improve the cost effectiveness of maintenance. Such improvements in technology and process are subsequently widely available to the whole industry, free of any major development or trialing costs.”⁸⁴

- 3.19** Evidence of innovation in road condition monitoring through contracting for road maintenance in the North-East Region of Sydney was presented by Transfield:

“Transfield, in Association with Pavement Management Services, has developed a technically sophisticated Pavement Model which can replicate the current funding of road maintenance on the road assets in the North-East Region of Sydney. This model can reliably predict condition and costs of maintenance over the term of the contract; including the impact of increased traffic volumes.”⁸⁵

⁸³ Industry Commission, Competitive Tendering and Contracting by Public Sector Agencies, Report No.48, 24 January 1996, p.118.

⁸⁴ Submission No.25, CSR Emoleum, p.6

⁸⁵ Submission No. 37, Transfield Maintenance, p.2.

3.20 Transfield also provided evidence of technological innovation through performance maintenance contracts. It stated that it has:

“...resulted in the development of a positive approach to pavement problems with the design of specific asphalt mixes to withstand extreme traffic conditions, where the increase in commercial traffic has gone beyond design expectation, by:

- Further development of asphalt recycling, creating a no waste environment;
- Introducing purpose designed pavement mixes taking advantage of smart materials. eg. Multigrade Bitumen and the use of newly developed Stone Matrix Asphalt mixes resulting in substantial cost savings, benefiting the community with a much extended dollar by providing more tonnes for less money.”⁸⁶

3.21 Transfield also demonstrated non-economic benefits derived from recycling and the beneficial implications for the environment of technology and innovation.

“One of Transfield’s commitments is to maximise the recycling of vegetation and pavement waste materials generated by maintenance activities. With this in mind, consideration was given to purchasing plant and equipment that ensures “waste” generated is suitable for re-use in some form.

...To date all reclaimed pavement materials have been re-used in road shoulders or used in pavement construction.

Transfield operates a state of the art asphalt plant which has high recycling capacity, capable of reprocessing up to 50% of reclaimed material.

This plant is the cleanest and most modern in Australia exceeding local EPA requirements using the latest environmental controls. It also sets new benchmarks in energy efficiency for the asphalt industry.⁸⁷

Recycling of old pavement and landscaping materials contributes to an improved environment by reducing the quantity of material sent to landfill.”⁸⁸

The cost impacts of CCT

3.22 By far the majority of submissions received by the Committee with respect to competitive tendering of road maintenance were concerned with cost-effectiveness of service provision. It was viewed by some submissions that competitive tendering will

⁸⁶ Submission No. 37, Transfield Maintenance, p.4.

⁸⁷ Submission No. 37, Transfield Maintenance, p.5.

⁸⁸ Submission No. 37, Transfield Maintenance, p.2.

ultimately lead to higher overall costs. Other sectors indicated that competitive tendering by its nature will result in significant savings to the NSW Roads and Traffic Authority and results in the more efficient use of public funds.⁸⁹

3.23 The majority of evidence received addressed the issue of cost impacts and demonstrated examples of cost savings that had been achieved both within New South Wales and within other jurisdictions.

3.24 The submissions received from the large private contracting organisations, Transfield and CSR Emoleum provided numerous examples of situations where CCT resulted in cost savings. The submission from Transfield outlined that it was currently party to a contract with the Roads And Traffic Authority Of New South Wales over the North-East Region of Sydney which represents 35% of Sydney's Arterial Road Network. Transfield also holds similar term contracts with Transit New Zealand and Main Roads Western Australia. With respect to these contracts, Transfield's submission provides the following information about cost savings.

"The RTA have advised that the saving for this contract is approximately 38% of the funds that the RTA had spent on the combined networks to achieve a similar level of service that Transfield had offered.

This saving is similar to the savings achieved by other Australasian Road Authorities (Main Roads Western Australia, Transit New Zealand, and Department of Transport Tasmania). All Authorities have achieved savings in excess of 30% on their previous levels of expenditure."⁹⁰

3.25 The submission from CSR Emoleum also presented information on savings reported by the NSW Roads and Traffic Authority relating to longer term performance based contracts.

"The RTA have previously reported that the costs of maintenance under a 10 year lump sum performance based contract are more than 25 percent less than costs under other forms of competitively tendered maintenance contract."⁹¹

⁸⁹ Submission No. 37, Transfield Maintenance, p.2.

⁹⁰ Submission No. 37, Transfield Maintenance, p.6.

⁹¹ Submission No. 25, CSR Emoleum, p.3.

3.26 CSR Emoleum also provided its own evidence on savings achieved in other jurisdictions. CSR Emoleum cited the example of Transit New Zealand where a 10 year lump sum PSMC has delivered savings of more than 20% when compared to costs of maintenance under the combination lump sum/schedule of rates contracts previously used. In relation to the Tasmanian experience, the submission stated,

“The Tasmanian Department of Infrastructure, Energy and Resources report that the 10 year lump sum PSMC in Southern Tasmania generated savings of more than 20 percent when compared to previous combination lump sum/schedule of rates contracts.”⁹²

3.27 The information relating to cost benefits presented by Transfield and CSR Emoleum was confirmed by the NSW Roads and Traffic Authority. In a response to a question asked by the Committee regarding the initial intent to implement CCT, the NSW Roads and Traffic Authority submitted the following information:

“The competitive tendering announcement was...influenced by growing evidence from across the country that introducing competitive pressures into the road maintenance market can deliver substantial savings. For example:

- The introduction of contracts for the management and delivery of maintenance (by schedule of rates contracts) in south-western Sydney during the 1990’s significantly reduced costs, and also stimulated improved productivity in RTA workforces.
- The Sydney Performance Specified Maintenance Contract (PSMC) results in a saving to the RTA of \$101m (or 35%) over 10 years.
- A competitive tendering initiative by Transit NZ in 1995 has resulted in total annual maintenance expenditure efficiency gains of \$20 to \$25m.
- The Tasmanian Department of Infrastructure, Energy and Resources has reported savings of approximately 10% for combination lump sum/schedule of rates contracts, and further savings of 20% (\$20m) for a 10 year PSMC.”⁹³

3.28 A submission was received by the Victorian state road authority, VicRoads, which has implemented CCT for road maintenance. The submission by VicRoads indicates that there has been an overall reduction in the average unit rate for routine maintenance since 1994/95. The following table outlines the change from 1994-95 to 1999-00:⁹⁴

⁹² Submission No.25, CSR Emoleum, p.3

⁹³ Correspondence from NSW Roads and Traffic Authority, dated 28 February 2000, p.2.

⁹⁴ Submission No.37, VicRoads, p.4.

Table 12**Average unit rate for routine maintenance in Victoria**

Classification (\$/lane km)	Year					
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
State Highways	1356	1276	1067	994	990	983
Main Roads	722	631	608	597	600	613
National Highways	Not available	Not available	Not available	1358	1353	1279

3.29 Evidence received by the Industry Commission's Report on competitive tendering generally indicated that reduced costs tended to result from competitive tendering. The Report stated:

"The available evidence indicates that while there have been instances where the costs have increased through CTC, it can and generally does reduce the ongoing costs of service delivery for government agencies."⁹⁵

3.30 An additional perspective on cost impacts of CCT was presented by Transfield which highlighted that cost savings were quantifiable not only for the benefit of the relevant roads authority but also for road users generally. In addressing the issue of community service obligations the submission indicated that by utilising Pavement Deterioration Modelling, preventative management of the surface roughness results in decreasing road user cost.

"[This] recognises the impact on individuals in the community and places emphasis on attending to issues raised by the community. This has been particularly successful and has resulted in the level of complaints dropping significantly since the start of the Contract."⁹⁶

The nature and sources of savings

3.31 While substantial evidence was provided regarding the possible savings accessible from CCT, there is a need to identify where those savings are obtained. It is important to ascertain whether cost savings have resulted from efficiency gains or alternately from cost transfers to other areas. A concern was also expressed by several

⁹⁵ Industry Commission, Competitive Tendering and Contracting by Public Sector Agencies, Report No.48, 24 January 1996, p.140.

⁹⁶ Submission No. 37, Transfield Maintenance, p.11.

submissions that some artificial savings may be attained through predatory pricing by private contractors.

Efficiency

- 3.32** Improvement in efficiency is a keystone of the argument in favour CCT. It is necessary to ascertain whether an increase in efficiency will result from a change in the tendering process in a given industry. The majority of submissions that addressed the issue of efficiency specifically addressed efficiency levels achieved and means of achieving greater efficiency. One submission addressed the more negative aspects of efficiency objectives.
- 3.33** Transport SA indicated in its submission that the competitive tendering process “delivered significant efficiency gains for the agency business unit”⁹⁷
- 3.34** The submission from VicRoads attributed most of its cost savings to:
- an ongoing benchmarking process for improving maintenance practices and effectiveness and;
 - productivity gains achieved through competitive tendering and more efficient packaging of contracts on an area wide basis.⁹⁸
- 3.35** VicRoads demonstrated the improvements in efficiency achieved by providing information on the Roads Maintenance Effectiveness (RME) indicator with respect to Victorian Roads. The RME was developed by Austroads,⁹⁹ and represents the cost per lane-kilometre to maintain sealed urban and rural roads in smooth condition. An RME figure is calculated as a ratio of total maintenance expenditure to length of road, for surface smoothness. Two levels of smooth surface are used and defined by roughness counts of 110 and 140 as calculated by the NAASRA¹⁰⁰ Roughness Meter (NRM). An NRM of less than 110 indicates acceptable travel conditions and an NRM greater than 140 indicates unacceptable travel conditions. A lower RME figure indicates more effective road maintenance costs.

⁹⁷ Submission No.29, Transport SA, p. 4.

⁹⁸ Submission No.37, VicRoads, p. 4.

⁹⁹ Austroads is an association of Australian and New Zealand road transport and traffic authorities which was formed for the purpose, among other things, to promote the identification and application of world’s best practice: Austroads, Benchmarking Framework, AP 124, 1997.

¹⁰⁰ National Association of Australian State Road Authorities

3.36 VicRoads submitted that the roughness of 50% of the declared road network is measured annually and it can be seen that there has been an overall reduction in RME since 1994-95.¹⁰¹

3.37 The following tables indicate RME information reported by several jurisdictions, including Victoria. The first table provides the RME for an NRM of 110 and the second table indicates RME for an NRM of less than 140.

Table 13

Roads Maintenance Effectiveness 110 NRM

Maintenance cost per lane-km (\$'000) to keep road below an acceptable roughness level of 110

	<i>Urban Roads</i>				<i>Rural Roads</i>				<i>All Roads</i>			
	94-95	95-96	96-97	97-98	94-95	95-96	96-97	97-98	94-95	95-96	96-97	97-98
Victoria	7.09	6.85	6.10	5.98	3.58	3.77	3.41	3.24	4.21	4.36	3.92	3.78
Queensland		10.90	11.50	12.80		5.00	5.50	5.70	5.30		5.80	6.10
Western Australia	2.91	3.46	5.48	5.39	1.78	1.91	2.19	2.57	1.86	2.03	2.40	2.77
South Australia	5.14	6.17	6.70	6.54	2.33	2.54	2.48	2.08	2.65	2.96	3.03	2.66
ACT										3.06	3.08	3.03
Northern Territory									4.35	2.10		

Table 14

Roads Maintenance Effectiveness 140 NRM

Maintenance cost per lane-km (\$'000) to keep road below a desirable roughness level of less than 140

	<i>Urban Roads</i>				<i>Rural Roads</i>				<i>All Roads</i>			
	94-95	95-96	96-97	97-98	94-95	95-96	96-97	97-98	94-95	95-96	96-97	97-98
Victoria	6.24	6.03	5.40	5.42	3.31	3.48	3.16	3.00	3.85	3.99	3.60	3.48
Queensland		9.90	10.40	11.70		4.30	4.70	4.80		4.50	5.00	5.10
Western Australia	2.88	3.43	5.45	5.35	1.76	1.90	2.16	2.54	1.84	2.01	2.37	2.73
South Australia	4.69	5.57	5.97	5.82	2.22	2.38	2.34	1.97	2.51	2.77	2.84	2.50
ACT										2.69	2.72	2.67
Northern Territory									4.07	1.98		

¹⁰¹ Submission No. 36, VicRoads, pp. 6-7

3.38 The NSW Roads and Traffic Authority does not provide information on the RME performance indicator. The NSW Roads and Traffic Authority is of the view that it has historically not published RME figures “due to concern over the validity of results”.¹⁰² The NSW Roads and Traffic Authority considers that comparisons between jurisdictions could be misleading because:

- Differences in cost definition and reporting between states results in a lack of uniformity in base data.
- The formulation of the measure does not give a clear indication of what result represents a good or poor result.
- The measure can be considered primarily an indicator of level investment in the short to medium term, and as such does not measure the performance of the individual road agencies nor point to inefficiencies or ineffectiveness of the organisation.
- RME must be considered a lag indicator in tying together present investment level and condition based on past investment decisions and condition outcomes.¹⁰³

3.39 In the absence of equivalent information from the NSW Roads and Traffic Authority regarding road maintenance effectiveness, information provided by a specialist engineering and management consultancy stated that, in terms of cost efficiency its,

“...best assessment of current NSW Local Government road services cost-effectiveness is that it is below that being achieved by the road construction and maintenance sector, including local councils, in Victoria.”¹⁰⁴

3.40 The submissions from Transfield and CSR Emoleum demonstrated how efficiency gains could be achieved with competitive tendering. These efficiency gains appear to be largely predicated on the adoption of Performance Specified Maintenance Contracts (PSMC).

3.41 The purpose of a PSMC is to maintain a road network to a condition equal to or better than that specified in the contract document. Measurable performance indicators are the basis of payment rather than an estimate of quantities, hence the payment method is increasingly on a lump sum basis. The submission from ARRB Transport Research outlined the three main issues in consideration of performance criteria:

¹⁰² Correspondence from NSW Roads and Traffic Authority, dated 10 March 2000.

¹⁰³ Correspondence from NSW Roads and Traffic Authority, dated 10 March 2000.

¹⁰⁴ Submission No.40, Alf Grigg & Associates, p.5.

- The pavement: This has all the traditional measures, roughness, rutting, cracking, texture etc. With appropriately set intervention levels based on road class etc.
- The contractor: This depends upon the style of contract. If based upon schedule of rates and work orders, then response times can be an effective performance indicator. If based on a long term Lump Sum package, then factors such as response to faults reported, to emergency call outs and percentage faults detected over audit periods.
- The product: The focus is on the final objectives. Target conditions may be set, requiring an improvement over time in roughness for instance. Indexing of such criteria may then be used to establish a performance score.¹⁰⁵

3.42 CSR Emoleum views a PSMC as ultimately providing the contractor with a measure of control over the asset as:

“... the contractor assumes defacto ownership of the roads, and is responsible for the programming, funding, design, planning and delivery of works required to achieve the specified standards. This transfers the responsibility, and risk, of short and long term management and maintenance of the assets to the contractor.”¹⁰⁶

3.43 Transfield highlighted a major benefit for efficiency from control over assets as under its contract it may elect to:

“...fund a project to obtain the benefit of early intervention of the deteriorating asset (mainly road pavements), and considerable savings can be achieved by intervening when the defects are at a manageable stage, at a much reduced cost.”¹⁰⁷

3.44 In addition to the control factor, private contractors also advocate longer term contract periods. CSR Emoleum stated that to be fully effective, a longer-term contract of 10 years is required to achieve optimum results for the road agency and the contractor.¹⁰⁸ By contrast, the Victorian experience indicates that the initial 5-

¹⁰⁵ Submission No.9, ARRB Transport Research: “Performance Criteria for Pavement Maintenance Contracts”, March 1999, p. 3.

¹⁰⁶ Submission No.25, CSR Emoleum, p. 3.

¹⁰⁷ Submission No. 37, Transfield Maintenance, p. 7.

¹⁰⁸ Submission No.25, CSR Emoleum, p. 3.

year contract terms were too long to start off with and 2-3 years probably being more appropriate.¹⁰⁹

3.45 To highlight the efficiency benefits of PSMC, CSR Emoleum stated that there is international evidence to show that even where competitive tendering was implemented, maximising potential savings could not be achieved by offering Schedule of rates work which is currently the most common form of road maintenance contract.

“Schedule of rate price for activities are invariably higher than lump sum prices for similar activities, where the lump sum contractor is given latitude to plan works to achieve specified performance levels. This is because of the assumptions the Schedule of Rates contractor must make in respect to the rate at which the work will be directed by the RTA and the productivity which may be achieved under each directed work package. Schedule of Rates prices will assume directions give small isolated quantities of work which prohibit maximum productivity. Under large scale lump sum contracts the contractor can assume that work can be packaged to make best use of resources and maximisation of crew productivity.”¹¹⁰

Transaction (tendering, negotiation, securities etc) costs will be duplicated across many small contracts and at more frequent intervals, significantly increasing the overall transaction costs.”¹¹¹

3.46 The implementation of large lump sum contracts was unanimously opposed by all local councils that made submissions. For example, Hastings Council advocated that any contracting out of rehabilitation or reconstruction works on the State Highway network should be done by the use of separable portions within the overall contract. Part of the reasoning is to provide medium sized organisations with the ability to apply for contracts, as fewer, larger contracts across the state would only be available to large organisations and preclude most councils and local contractors.¹¹²

3.47 By contrast to the arguments discussed so far on efficiency, the Public Service Association’s expressed concern about the prevailing focus on efficiency to justify implementation of competitive tendering.

“The overriding concern has been that much public policy in relation to public sector reforms and service provision has been dominated particularly by a narrow focus on economic efficiency.

¹⁰⁹ Submission No.9, ARRB Transport Research, “Road Maintenance by Contract – What are the Risks and Benefits?”, Paul Robinson, p. 2.

¹¹⁰ Submission No.25, CSR Emoleum, p. 7.

¹¹¹ Submission No.25, CSR Emoleum, p. 7.

¹¹² Submission No.15, Hastings Council, p. 2.

There is a need for a far greater multidisciplinary approach to public sector reform that goes beyond the simplistic focus on the 'bottom line'." ¹¹³

3.48 Further the submission stated:

"NCP has become a 'lightning rod' for the many negative social and structural changes that are occurring in Australia. Many negative community perceptions of NCP can be attributed to other microeconomic reform strategies and the political expediency of State jurisdictions that have, for example, implemented compulsory competitive tendering without consultation with the claim that this was a mandatory requirement of NCP." ¹¹⁴

Predatory pricing

3.49 A number of submissions expressed concern that predatory pricing may be employed by private contractors in an attempt to not only demonstrate the appearance of cost-effectiveness but also to eliminate competition from lesser resourced organisations. One submission stated that:

"...competitive tendering alone may produce cost reductions through open competition particularly in the first round if predatory pricing is permitted. This is mainly relevant in regional settings where such pricing would ensure that tenderers capable of taking a loss for the first contract would "see off" the competition such as an in-house Council road construction and maintenance team before enjoying market dominance in subsequent contracts." ¹¹⁵

3.50 A similar view was also expressed by Wellington Council, which asserted:

"Although there may be some particular savings in some contracts initially it has been shown elsewhere that when local sources are no longer able to provide the works and services, external contracting will quickly adjust to a rate with a better profit margin and no saving to the principal or contracting organisations." ¹¹⁶

3.51 Bellingen Shire Council presented a positive outlook regarding the competitiveness of its own works crews in the absence of a predatory pricing scenario.

¹¹³ Submission No. 33, Public Service Association of New South Wales, Covering letter. p. 1.

¹¹⁴ Submission No. 33, Public Service Association of New South Wales, p. 5.

¹¹⁵ Submission No.40, Alf Grigg & Associates, p. 7.

¹¹⁶ Submission No.22, Wellington Council, p. 1.; Also the view of Submission No.2, Institute of Municipal Engineering Australia Orana Group, p. 2.

“Council is confident that council work teams will be able to successfully compete against the private sector in open competitive tendering subject only to the elimination of predatory pricing by the private sector.”¹¹⁷

3.52 The submission from Alf Grigg & Associates did however suggest that the issue of predatory pricing could be reduced if managed properly:

“Assuming that Government is committed to the principles of National Competition Policy with respect to prohibiting and actively discouraging predatory pricing, open competition will be enhanced by comprehensive, open public sector reform and competition policy that is understood and implemented by all industry sectors at least 2 years in advance of the proposed market reform.”¹¹⁸

Cost transfers

3.53 The Standing Committee understands the viewpoint that cost savings achieved in competitive tendering are, on occasions, not due to efficiency improvements but merely due to transferring costs of labour to other sectors. In the present case, cost transfers could occur through transfers from:

- employees through a reduction in wages and conditions;
- one level of government to another through “cost shifting”; or
- transfers from clients through reductions in the level or quality of services.¹¹⁹

3.54 This issue was raised in the Second Report of the Council on the Cost of Government, which outlined its role with respect to service competition in New South Wales.

“The Council is to provide advice to the Government on how best to secure benefits for service competition. In so doing, it is important to keep in mind that any cost savings through outsourcing public services arise either because contractors are more efficient than public sector providers, or because they pay the factors of production, notably labour in the case of public services, less. Only in the former case is there a true efficiency gain for the

¹¹⁷ Submission No.27, Bellingen Shire Council, p. 3.

¹¹⁸ Submission No.40, Alf Grigg & Associates, p. 7.

¹¹⁹ Public Bodies Review Committee and the Standing Committee on Public Works (Joint Inquiry), Competitive Tendering and Contracting in the New South Wales Public Sector, Vol.1, Report No.6, December 1998, p. 9.

community. The latter represents only a transfer of benefits from one group to another.”¹²⁰

- 3.55** The submission from the Public Service Association of New South Wales expressed concern with respect to cost transfers and the competitive disadvantage that this creates for competing public sector organisations.

“It is notable that the attractiveness of outsourcing to governments is because it is a crude mechanism for cutting labour costs. If the net competitive disadvantages of a public sector entity were to be properly considered prior to the application of competition such as CTC, then the treatment or more beneficial public sector employment conditions could be more appropriately (and equitably) dealt with.”¹²¹

- 3.56** The Council of Casino drew attention to a potential problem where costs transfers may occur between government departments.

“It is irresponsible to make “savings” in one area of Government which will create the need for additional expenditure in another area. In this case the potential to “save” in road funding at the expense of additional social services expenditure.”¹²²

- 3.57** A similar view was expressed by Bellingen Shire, which stated:

“The indirect economic cost arising from potential loss of employment include increased policing, health and community welfare costs...”¹²³

- 3.58** The submissions from Transfield and CSR Emoleum commented on cost transfers from a different perspective, that is, where a PSMC is adopted, a private contractor indemnifies a roads authority from any losses arising from overruns under a contract. It was the view of CSR that:

“... the issue of recovery of losses from downside risk realisation is important. Where a local government “contractor” loses on a contract, the loss will be borne by the local community. Alternatively, the government may intervene to offset the loss, with the flow-on effect of the loss impacting on government budgets. In private sector contracts these losses are borne by the private sector.”¹²⁴

¹²⁰ Council on the Cost of Government: Second Report, December 1996, p. 38.

¹²¹ Submission No. 33, Public Service Association of New South Wales, p. 17.

¹²² Submission No.19, Council of Casino, p. 1.

¹²³ Submission No.27, Bellingen Shire Council, p. 6.

¹²⁴ Submission No.25, CSR Emoleum, p. 8.

3.59 Hastings Council by contrast indicated that Councils already absorbed cost overruns:

“Previously, Councils have subsidised the RTA for works undertaken on their behalf on State Highways and for other projects on Council roads where funding has been partially provided by the Authority for such things as cost overruns, design staff, staff supervision, management charges and overheads. Under a formal contracting out system, these costs will be incurred directly by the RTA.”¹²⁵

3.60 Contrary to this assertion by Hastings Shire Council, correspondence received from the NSW Roads and Traffic Authority confirmed that under the previous arrangements between councils and the NSW Roads and Traffic Authority, for the delivery of maintenance on State roads, councils were funded on a cost recovery basis and cost overruns by councils were borne by the NSW Roads and Traffic Authority. Funding shortfalls were usually met by reducing the scope of maintenance projects or by delaying other maintenance projects.¹²⁶

Committee analysis

3.61 From the evidence received by the Committee, on balance it is apparent that cost savings would be achieved by the implementation of CCT. Regardless of the compelling arguments in favour of CCT raised by private contractors, the current experience of the NSW Roads and Traffic Authority with respect to urban road maintenance and the experience of other jurisdictions points to the likelihood of cost savings from a general implementation of CCT. The Committee nevertheless acknowledges the concerns expressed by submissions regarding the negative cost implications that may arise, including social impacts and quality reduction.

¹²⁵ Submission No.15, Hastings Council, p. 2.

¹²⁶ Correspondence from NSW Roads and Traffic Authority to the Chair, dated 28 February 2000, p. 2.

Chapter 4 THE IMPACTS OF CCT ON REGIONAL SOCIO-ECONOMIC FACTORS

Competitive tendering has generally been implemented with the objective of improving cost efficiency and better service delivery. The better utilisation of public funds to provide more services is an obvious benefit, however these benefits must be balanced in light of broader social and economic effects. By far the majority of submissions received were focussed on the implications of competitive tendering on rural and remote areas.

4.1 The NSW Roads and Traffic Authority informed the Committee that the competitive tendering initiative for rural road maintenance was proposed on the basis that local economic and social impacts would be considered on a case by case basis as part of the tender assessment. Further it was expressed that:

“It was considered impracticable to properly forecast any adverse economic and social impacts on a statewide basis during the policy development phase because adverse effects could have been largely mitigated due to:

- Existing council deliverers winning competitively tendered work.
- Large companies employing workers that were displaced as a result of contracting road maintenance.
- Savings being reinvested into the road network via the Rebuilding Country Roads Program, which focuses road infrastructure funds in rural areas towards the needs of industry.”¹²⁷

The impact on industry

4.2 As the concept of competitive tendering attempts to stimulate interest from private enterprise to compete for contracts, it was anticipated that a number of submissions would be received in support of promoting private industry. Only a small number of submissions in fact addressed this issue.

4.3 In its submission, Transfield outlined some of the benefits to local industry.

“A major benefit to communities is that these contracts bring an area a new employer who supports local business, and offers opportunities to persons who wish to further develop their career.”¹²⁸

¹²⁷ Correspondence from NSW Roads and Traffic Authority to the Chair, dated 28 February 2000, p.3.

Small business is also encouraged to participate in these contracts, and in particular owner/operators and sub-contractors. Where small contractors have been given an opportunity, they have improved their safety and general business administration, as they are encouraged to implement new systems and participate in training programs, which help refine their business.”¹²⁹

- 4.4** In addition, CSR Emoleum refuted any claims that large road maintenance contracts with correspondingly large contractors would diminish local industry.

“It has been argued that contracts with such significant scope and term will damage the existing market for small and specialised contract services, as a result of large head contractors dominating the supply of all the services. This has not proven to be the case, with these small and specialised services generally being subcontracted out by the head contractor. This approach can be enforced through the contractual process.”¹³⁰

The impact on local government

- 4.5** As local councils are often significantly large employers in a rural area and consequently of economic importance to the area, it is necessary to examine the impact of CCT on the operations of local government.

- 4.6** The responses to CCT from local government were either fundamental opposition to competitive tendering or at least opposition to the contract terms originally proposed by the NSW Roads and Traffic Authority. In either case, councils expressed serious concerns about competing on a level playing field and if they were not permitted to compete effectively, the consequences they perceive will arise from different outsourcing of road maintenance.

- 4.7** A passage from Bellingen Council’s submission outlines a sentiment common to most rural councils regarding the vulnerability of rural areas.

“Council’s recently adopted Social Action Plan identifies that there are severe restrictions and employment opportunities within our area. Disruption is likely to be significant from even a relatively minor loss of employment with the cumulative effect from the flow on of additional unemployment being significant, particularly on the Dorrigo plateau where changes in traditional employment arising from closure of logging and forestry operations has already placed significant pressure on that community.”¹³¹

¹²⁸ Submission No. 37, Transfield Maintenance, p.9.

¹²⁹ Submission No. 37, Transfield Maintenance, p.9.

¹³⁰ Submission No.26, CSR Emoleum, p.6.

¹³¹ Submission No.27, Bellingen Shire Council, p.1.

4.8 Several councils expressed a general fear that the introduction of private enterprise will create a loss to the “social fabric” of the community as the employees involved with road maintenance and the families of those employees, are lost to the region and the particular country town.¹³²

4.9 A few submissions indicated that although they are not opposed to CCT, they feel they are being forced into such a process as a result of inefficiencies in some council areas. Cowra Council, for example advised that:

“...Council is not so much opposed to the competitive tendering concept as to its indiscriminate impact equally on good and bad performing Councils and their staff.”¹³³

4.10 The submissions received from private contractors did not anticipate that deleterious impacts would result from the implementation of CCT and seem to have an inclusive attitude towards council involvement.

Competition between councils and contractors

4.11 Concerns about the CCT implementation process originally proposed by the NSW Roads and Traffic Authority related mainly to:

- the size of contracts in terms of dollar value;
- the length of term of contracts; and
- the speed with which CCT was proposed to be implemented.

Size and length of contracts

4.12 The general concern regarding the proposed CCT contract format was that it virtually excluded councils from competition. The submission from Hume Council expressed an example of this feeling.

“In essence, the basis for exclusion stems from the size and nature of the proposed contracts, which will cover the work, which has traditionally over many decades, been performed by councils in this State. Clearly without substantial modification to these arrangements, there will be massive impacts on councils, their workforces and their communities.”¹³⁴

¹³² See for example, Submission No.17, Parkes Shire Council, p.1; Submission No.16, Carathool Shire Council, p.1.

¹³³ Submission No.8, Cowra Shire Council, p.1.

¹³⁴ Submission No.30, Hume Shire Council, p.2.

4.13 The forced exclusion from tendering was also addressed in the submission of a private consultancy which believed that:

“... few councils were prepared with business and attributable costing systems or had the organisational culture to effectively compete for such large contract packages.”¹³⁵

4.14 The size of contract packages was an issue raised in many of the submissions received from councils. Tallaganda Council stated that it is simply unable to bid for contract works in the order of \$3 million as their current annual budget for all services including water and sewerage is only \$7 million.¹³⁶ Cowra Council suggested that if CCT is introduced that the size of contracts be reduced to less than \$1 million:

“This would enable Councils to become quality assured to \$1 million, they will be able to tender without major costs of providing financial backing as for \$2 - \$5 million contracts and costs of establishing a plant and necessary workforce for short periods.”¹³⁷

4.15 Cabonne Council identified that \$1 million of its \$5 to \$6 million total roadworks budget per year was attributed to State road work on behalf of the NSW Roads and Traffic Authority. It is argued that the loss of this funding would have a serious impact on Council’s operations.¹³⁸ Along similar lines, Boorowa Council submitted that:

“Under the present system Council has a regular income which it can rely on to ensure that there is work for its staff and its plant. This continuity enables Council to replace plant and keep its fleet up to date. This ensures economic operations for RTA and Council works. The loss of rehabilitation as proposed under CCT will cause a downgrading of Council’s plant and staff in the long run as it is evident that we cannot win every contract.”¹³⁹

4.16 The Council of Casino expressed reservations whether councils would be able to present a challenge to large private contractors.

“It is interesting to note that the two road maintenance contracts let in the Metropolitan area have been won by the major national companies Boral and Transfield. With these major players already in the game it is difficult to

¹³⁵ Submission No.40, Alf Grigg & Associates, p.9.

¹³⁶ Submission No.7, Tallaganda Shire Council, p.2.

¹³⁷ Submission No.8, Cowra Shire Council, p.2.

¹³⁸ Submission No.20, Cabonne Council, p.2.

¹³⁹ Submission No.13, Boorowa Council, p.5.

imagine a number of small country Councils being able to successfully compete "price wise" with these majors." ¹⁴⁰

Implementation time-frame

4.17 An important concern regarding the proposed implementation of CCT was the timeframe with which it was to be introduced. In relation to this issue, Hume Council submitted:

"Another major concern is that the timeframe allocated for the implementation of competitive tendering for period and rehabilitation works on the State road network is extremely short. The timeframe will effectively exclude councils from tendering in the first round due to the significant amount of time required by each council in this State to achieve prequalification." ¹⁴¹

4.18 Bellingen Council cited the Victorian experience with respect to change management and phasing in CCT:

"...Council argues that such fundamental change needs time to change. The Victorian CCT experience demonstrated the need for 2-3 years if effective, planned reform is to be achieved. NSW is no different, yet is facing effectively the same challenge as did Victoria with less than 12 months from announcement to implementation of the process." ¹⁴²

4.19 The submission from an independent private consultancy also stressed the need for gradual implementation of any market testing:

"...such market reform takes time if the process is to be effective and not create adverse impacts on the greater community. Local Government needs that time to achieve the best outcome for regional development." ¹⁴³

4.20 To avoid negative impacts on rural areas, Transport SA in its submission, indicated that where certain areas were identified as vulnerable, those areas were excluded from competitive tendering:

"At this time, it is proposed that the Yorke Peninsula area shall also be 'excised' from the competitive processes and that the local Council undertake these works. This is subject to Council providing evidence to TSA that it has management systems in place which meet the requirements imposed on the private sector and that its price is competitive. This initiative has been

¹⁴⁰ Submission No.19, Council of Casino, p.2.

¹⁴¹ Submission No.30, Hume Shire Council, p.2.

¹⁴² Submission No.27, Bellingen Shire Council, p.3.

¹⁴³ Submission No.40, Alf Grigg & Associates, p.3.

undertaken to again minimise any adverse impact on rural communities whilst ensuring efficiency gains are maintained..”¹⁴⁴

Outcomes for councils under CCT

4.21 The submission from Wellington Council argued two reasons for the benefits of maintaining the current relationship between the NSW Roads and Traffic Authority and local government.

“The first is a long-term presence by the constructing authority which ensures the quality of work. The second is that the local authority provides for the integrity of rural communities which must remain to ensure the ongoing viability of country New South Wales and rural industries.”¹⁴⁵

4.22 The Ballina Branch ALP expressed that for many years, road maintenance funding received by councils has enabled them to maintain their day labour force to the benefit of local communities despite of an often “too thin rate base”.¹⁴⁶

4.23 It has been argued that if current funding arrangements between the NSW Roads and Traffic Authority and local government is significantly altered, the ability of councils to maintain plant and an appropriately skilled workforce would diminish the ability to provide certain services.

“A further question would be whether councils could afford to carry plant and equipment idle for extended periods without works, or whether regional plant resourcing would provide the required flexibility.”¹⁴⁷

¹⁴⁴ Submission No.29, Transport SA, p.4.

¹⁴⁵ Submission No.22, Wellington Council, p.2.

¹⁴⁶ Submission No.5, Ballina Branch ALP, p.1.

¹⁴⁷ Submission No.27, Bellingen Shire Council, p.3.

4.24 Further,

“A typical feature of such downsizing [resulting from CCT] was the voluntary redundancy processes encouraged competent employees to depart to try their chances in other employment, leaving some work teams short of leadership skills and motivated employees.”¹⁴⁸

4.25 A specific problem raised by Cabonne Council drew attention to the current role of Councils as emergency service providers, a role that may be diminished if councils are required to reduce staffing levels.

“In bad weather or emergencies, Council is often a first port of call to provide resources to repair, restore or backup in an emergency situation. The RTA is now using Councils in regional New South Wales for a first port of call emergency backup on State Roads.”¹⁴⁹

4.26 In contrast to the negative expectations from CCT implementation by local government, the submissions from private road maintenance contractors did not anticipate significant impacts on local government. The submission from Transfield explained that CCT created opportunities for local government where private contractors were engaged.

“There are examples where Local Councils have been engaged as sub-contractors, to handle specific sections of contracts, where they have proven to be competitive and willing to develop changes in work ethics. This of course ensures that there remains an environment with local skills.”¹⁵⁰

4.27 The submission from CSR Emoleum expanded this argument by identifying examples in other jurisdictions where cooperation between private contractors and local government was achieved.

“There is evidence that large-scale performance contracts provide opportunities for local government involvement. This has the potential to improve the utilisation of Local Government resources, and hence reduce the cost of local road maintenance to the local community. This approach has been successfully employed by CSR Emoleum in contracts in both Tasmania and Western Australia. These opportunities arise from the ability of the contractor to “smooth-out” fluctuations in each of their works by integrating resources.

In Tasmania and Western Australia, CSR Emoleum has entered into resource sharing arrangements with a number of regional councils. Under these

¹⁴⁸ Submission No.27, Bellingen Shire Council, p.5.

¹⁴⁹ Submission No.20, Cabonne Council, p.5.

¹⁵⁰ Submission No. 37, Transfield Maintenance, p.9.

arrangements, CSR Emoleum utilises Council resources in the delivery of its state road maintenance works, thereby increasing the utilisation level of those resources, at a cost less than in the commercial plant hire market. This has the effect of reducing the cost of those resources to the Council, and thereby reducing the cost of its own work and allowing more money to be put into Council services.”¹⁵¹

4.28 Finally, it is necessary to outline the views of the Minister for Roads and the Chief Executive of the NSW Roads and Traffic Authority, with respect to the outcomes for local government. In appearing before the Budget Estimates hearings in September 1999, the Minister explained that about 20 per cent of State roads are maintained by council staff and about 80 per cent by RTA work crews. The Minister stated that generally speaking, council crews in country New South Wales almost solely do gravel work on unsealed roads, and that other sealing work, line marking, bridge work and new capital works are already tendered out.¹⁵²

4.29 The Chief Executive of the NSW Roads and Traffic Authority, Mr Paul Forward further sought to allay the fears of local councils during the Budget Estimates hearings by explaining that the work of councils on regional and local roads will be unaffected by the CCT process.

“In the rural areas, councils will still be doing regional and local roads. They will also still be doing routine maintenance, which is a fair amount of work. They will continue to use their own work force to produce that work. They will then compete for the remaining work, a fair amount of which at the moment is already the subject of a competitive bid. It is the gravel work [for which they will compete]. In fact they do their own. If they are efficient they will get that work. Therefore, there will not be an impact in those areas.”¹⁵³

The impact on rural local areas

4.30 The implications of implementing CCT in rural local areas result from the outcomes of CCT for local government and industry. Just as disparate views were advanced on the negative and positive aspects of tendering on industry and local government, the Standing Committee found that equally disparate views were maintained with respect to the impacts on rural areas.

¹⁵¹ Submission No.25, CSR Emoleum, p.8.

¹⁵² General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.339.

¹⁵³ General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.341.

Implications for local economies

4.31 A number of councils including Forbes Council indicated that the proposed competitive tendering process was the latest in a long line of situations that have negatively affected rural towns. These submissions list various services which have been lost over the last few years including downgrading of health services, downgrading or removal of state government department offices, loss of banks and several other core services.¹⁵⁴

4.32 Narromine Council's submission also outlined the vulnerability of rural areas to change.

"Rural centres are already struggling to retain their human capital and economic activities. Not all human endeavours can or should be measured by the bottom line of a function, and if it is, consideration should be given to what is clearly evident – the cost of service delivery in rural areas is compounded by the factors of isolation from both human, technical and material resources." ¹⁵⁵

4.33 The submission from a private consultancy, indicated that loss of contracts by councils may result in forced amalgamations between councils given that their residual road maintenance task would have become unsustainable in training, competence, and utilisation of plant. The submission states:

"Such amalgamations would then produce a loss of viability of the towns that formed the home base for such councils. This experience would then become the equivalent to the Victorian Local Government experience where amalgamations produced loss of critical economic activity for many small towns, which was then further exacerbated when CCT closed many council in-house road maintenance depots." ¹⁵⁶

4.34 Cabonne Council drew attention to the potential economic problems created by the loss of a position, magnified in the rural context.

"Research suggests that the multiplier effect of the loss of one permanent position in a community is four times that considering businesses and other institutional employers in the town such as schools. The roll on effect of downsizing cannot be understated." ¹⁵⁷

¹⁵⁴ see for example: Submission No.11, Forbes Shire Council, p.2; Submission No.13, Boorowa Council, p.3.

¹⁵⁵ Submission No. 32, Narromine Shire Council, p.1.

¹⁵⁶ Submission No.40, Alf Grigg & Associates, p.9

¹⁵⁷ Submission No.20, Cabonne Council, p.4.

4.35 The submissions received from private contractors expressed a significantly more positive perspective with regard to the impacts of CCT on local economies. It was the view of Transfield that there would not be a major impact on the employment in rural communities as private contractors attempt to employ those affected by outsourcing. It states that:

“... there would be very little effect on local communities. It is fundamental to the success of outsourced contracts to offer employment to the existing workforce, for those individuals who choose to be part of a learning organisation.”¹⁵⁸

4.36 Transfield’s submission also attempts to allay fears that, work crews would be mobilised from regional centres and that would not employ from within local communities.

“Transfield has well-developed systems, a refreshing approach to road maintenance contracting, an appreciation of working in country centres and remote locations and expresses a willingness to be part of local communities. We see this as extremely important to maintaining the level of experience in any discipline and we actively encourage personnel to be part of our growth.”¹⁵⁹

Implications for local employees

4.37 The impact of CCT on employees and work conditions is an issue that applies to any field where previously protected work environments are exposed to commercial interests. Employees may be detrimentally affected through either loss of work opportunity or deterioration in employment conditions. As a result, a variety of issues were expressed concerning anticipated impacts on employees.

4.38 It was the view of the PSA that the majority of savings achieved through CCT are not necessarily through efficiency improvements and that:

“The sources of cost savings from CTC are largely from cost-shifting to employees in the form of lower wages and conditions.”¹⁶⁰

4.39 A major concern of the LGSA was the uncertain nature of employment security posed by CCT.

“The unpredictable nature of contract work can also lead to extended periods of an idle workforce, ultimately leading to redundancies.”¹⁶¹

¹⁵⁸ Submission No. 37, Transfield Maintenance, p.9.

¹⁵⁹ Submission No.37, Transfield Maintenance, p.10.

¹⁶⁰ Submission No. 33, Public Service Association of New South Wales, p.10.

4.40 Perhaps one of the most significant issues relating to loss of employment in rural areas is the situation of low-skilled employees. This issue was advanced by Bellingen Council.

“Of council’s workforce approximately two thirds are unskilled/semi-skilled. The effect of any loss of employment as a result of changes to funding levels is likely to have an adverse socio-economic impact, with this impact being greatest for the unskilled, low income employees.”¹⁶²

4.41 It was also perceived that where CCT leads to job loss, unemployment problems may lead to other related social problems such as marital breakdowns,¹⁶³ stress and dysfunctional behaviour.¹⁶⁴

4.42 Submissions received from private road maintenance contractors provided a significantly more positive view of the implications of CCT for local employees. With regard to any displacement of employees, Transfield stated:

“Transfield has had considerable experience and success in transferring personnel from the public to the private sector with minimal social impact. All personnel affected by outsourced maintenance are offered an expression of interest document to apply for a position within our company. There are numerous examples of individuals who have enhanced their careers by transferring to the private sector.”¹⁶⁵

4.43 The submission from CSR Emoleum essentially provided similar information to that provided by Transfield, in relation to recruiting displaced employees. CSR Emoleum did however underline the importance of engaging in a PSMC in order to maximise employment of displaced workers.

“In every case where a PSMC has been commenced, every existing maintenance employee wishing to remain in the industry and transfer to the contractor has been employed. This is of benefit to both client and contractor, through the retention of knowledge and local experience in each contract area.”¹⁶⁶

¹⁶¹ Submission No.39, Local Government and Shires Associations of NSW, p.3.

¹⁶² Submission No.27, Bellingen Shire Council, p.6.

¹⁶³ Submission No.27, Bellingen Shire Council, p.6

¹⁶⁴ Submission No.27, Bellingen Shire Council, p.6

¹⁶⁵ Submission No. 37, Transfield Maintenance, p.9.

¹⁶⁶ Submission No.25, CSR Emoleum, p.6.

4.44 The submission does concede that where short term routine contracts are offered, the generation of savings may result in fewer maintenance related positions due to the high proportion of labour cost in routine road maintenance work.¹⁶⁷

4.45 Transfield also demonstrated that its organisation provided flexibility for employees with respect to career prospects.

“Due to the diversified nature of Transfield’s business, we are able to create many other career opportunities for individuals who may seek a change in direction, or who wish to relocate to another area.”¹⁶⁸

4.46 Finally, Transfield’s submission looked to refute claims that CCT leads to a deterioration in wages and employment conditions and pointed to the organisation’s experience in actively cooperating with trade unions and establishing enterprise agreements.

“The private sector meets all award requirements, and generally encourage employees to be members of a Trade Union. There would certainly not be an erosion of pay and conditions, this aspect is covered by the development of an Enterprise Agreement in consultation with the appropriate Trade Union.”¹⁶⁹

4.47 As outlined in 4.28-4.29, it was the view of the Minister for Roads and the Chief Executive of the NSW Roads and Traffic Authority, that it was not anticipated that there would be an impact on employment in general. During the Budget Estimates hearings on 16 September 1999, the Hon. Ian Cohen quoted claims by the Federated Municipal and Shire Council Employee’s Union (MEU) that some 1,700 jobs could be lost from councils as a result of competitive tendering and asked the Minister whether the Government estimated the amount of job losses.¹⁷⁰ As part of the response, the Minister stated

“[W]e are not locked into any particular amount of savings. I am not going to say that we want to take X number of people out of this business and have Y amount of savings.”¹⁷¹

4.48 Further the Minister stated:

¹⁶⁷ Submission No.25, CSR Emoleum, p.6

¹⁶⁸ Submission No. 37, Transfield Maintenance, p.9.

¹⁶⁹ Submission No. 37, Transfield Maintenance, p.11.

¹⁷⁰ General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.340.

¹⁷¹ General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.340.

“As we go through this process I expect there will be reductions in staff, redundancy payments will be made, and there will be savings. It is not appropriate to lock that in now.”¹⁷²

Committee analysis

- 4.49** The Committee’s assessment of the socio-economic impacts attributable to CCT in rural New South Wales relies on experiences in other jurisdictions, metropolitan Sydney and from conceptual arguments, rather than actual impact analysis. To ascertain the extent of socio-economic impacts from a change in Government policy involves the identification of shifts from the status quo of a number of social and economic indicators.
- 4.50** CCT operates as an instrument to drive down costs through competition. Successful road maintenance tenderers are likely to have one or a combination of the following factors that generates a cost advantage over competitors:
- higher levels of skill and knowledge;
 - implementation of more advanced technology and equipment;
 - economies of scale;
 - reduction in fixed and variable costs such as wages and salaries; or
 - doing more for less, through smaller profit margins, longer working hours or reduced employment conditions.
- 4.51** Reductions in road maintenance costs attained by private contractors such as Transfield and CSR Emoleum in other jurisdictions and metropolitan Sydney appear possible on National Highways and State Roads under CCT, although the extent of savings achievable in rural areas is not known.
- 4.52** CSR Emoleum made reference to Tasmanian and Western Australian CCT experiences that heralded an improved utilisation of local council resources. In New South Wales, a high proportion of road maintenance (23%) is conducted by local councils. There is a possibility that competitive tendering may result in a number of local councils being unsuccessful in gaining road maintenance contracts under competitive conditions. In these circumstances there may be a shift away from a reliance on local council road maintenance resources under CCT.

¹⁷² General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.341.

- 4.53** Cost savings in road maintenance may lead to a degree of socio-economic impact on local council or NSW Roads and Traffic Authority road maintenance employees in rural communities. Potential impacts may include loss of employment, shift from permanent to casual employment status, reduction in wages and employment conditions and the relocation of jobs to larger regional centres. The extent of this impact is uncertain.
- 4.54** The Standing Committee notes that cost savings derived through implementation of the CCT process would be directed back into road network in the form of construction. This represents an income neutral impact on the road asset although an income transfer from maintenance to construction would occur. Potential socio-economic benefits would be derived from road construction for rural communities although the extent of this impact is unclear.

Chapter 5 ALTERNATIVES TO CCT

Benchmarking

Definition

Austrroads, the association of Australian and New Zealand road transport and traffic authorities, applies the following definition of benchmarking:

“The process of measuring the performance of an organisation, analysing practices in key areas, and then comparing them to similar operations or functions to find ways of achieving better results.”¹⁷³

5.1 Benchmarking enables an organisation to compare its operations with other organisations and can result in the following benefits:

- improved practices, competitiveness and outcomes
- a greater knowledge of industry best practices
- a better understanding of key business processes
- a better understanding of key performance measures and more effective measures of productivity and
- a greater success in understanding and meeting customer needs.¹⁷⁴

5.2 Benchmarking can also help develop quality management by identifying the processes of other leading organisations that achieve quality objectives.

Revised State Government reform package

5.3 As stated earlier, on 30 November 1999, the Minister for Roads and Minister for Transport announced that the NSW Roads and Traffic Authority would not introduce competitive tendering of State road and National Highway maintenance in NSW.

5.4 Under the revised model, the NSW Roads and Traffic Authority will require local councils to undertake a “Maintenance Qualification System” to identify a council’s ability to meet standards for roadwork quality, worker safety, traffic safety and

¹⁷³ Austrroads, Benchmarking Framework, AP 124/97, 1997, p.2.

¹⁷⁴ Austrroads, Benchmarking Framework, AP 124/97, 1997, p.2.

environmental protection. The standards will vary depending on the scale of work to be undertaken which should ensure that small councils could qualify for works in their area.¹⁷⁵ The revised reform package, as announced on 30 November 1999 is as follows:

- **Single Invitation Contracts and Agreed Prices:** Existing RTA and Local Government road maintenance organisations will be offered single invitation contracts to continue providing road maintenance services on State roads and National Highways at agreed prices and with commitments as to timing and quality of work.
- **Mandatory Prequalification:** All RTA and Local Government service deliverers intending to perform maintenance work on State Roads and National Highways will be required to meet the RTA's prequalification specifications in the areas of Occupational Health and Safety, environmental management and quality management systems. This will apply for any maintenance work on State Roads from 1 July 2000.¹⁷⁶
- **Application of Benchmarking:** The RTA will compare costs and quality of work performed against industry best practice and will negotiate with service deliverers to reduce costs and improve quality to ensure value for money for taxpayers is being obtained.¹⁷⁷

Benchmarking as a driver for reform

- 5.5** The Minister and the NSW Roads and Traffic Authority originally proposed to implement CCT as a mechanism to reform road maintenance service delivery, to achieve cost savings, greater accountability and more efficient road maintenance techniques. In the absence of CCT, the question then arises whether benchmarking will provide a sufficient driver for reform to meet these objectives. Successful benchmarking requires commitment by the organisation to the principle that the performance of any unit should be measured and that a reliable improvement process cannot be established unless current performance is measured and understood.¹⁷⁸
- 5.6** The response to the revised road maintenance reform package in the submissions received by the Standing Committee varied according to interest groups.

¹⁷⁵ Media Release, The Hon Carl Scully MP, Tuesday 30 November 1999, p.1.

¹⁷⁶ Prequalification for national highways will also commence on 1 July 2000.

¹⁷⁷ Media Release, The Hon Carl Scully MP, Tuesday 30 November 1999, p.2.

¹⁷⁸ Austroads, Benchmarking Framework, AP 124/97, 1997, p.4.

5.7 The decision to pursue a system of benchmarking was viewed by the Local Government and Shires Association as a positive driver for reform of road maintenance operations.

“The decision of the government to move towards a system of benchmarking will allow the RTA and councils to compare between like operations and amend practices accordingly. Providing that the benchmarks are established between comparable activities, there is no reason that cost efficiencies cannot be achieved and returned to the road network.” ¹⁷⁹

5.8 A submission from a private consultant viewed that open competition was not the part essential to drive the reform process.

“My observation of the NSW Local Government road service industry is that most councils embrace change with new machinery and construction/maintenance systems if the justifications are compelling and obvious. Achieving best practice methods rather than competition has, to the present, been the key driver.” ¹⁸⁰

5.9 In accordance with this view, Bellingen Shire Council was convinced that benchmarking is “capable of producing equivalent efficiency outcomes without the destructive and ‘sudden death’ nature of competitive tendering”.¹⁸¹

5.10 Some councils expressed reservations with regard to the commitment of the NSW Roads and Traffic Authority, to previous attempts at implementing a form of benchmarking system. Those councils raised the issue of the Maintenance Management System (MMS) which was originally introduced by the NSW Roads and Traffic Authority to compare works between councils.¹⁸² The MMS was an instrument intended to provide data on the overall condition of the rural road network. Some councils submitted that this system has not worked and that the NSW Roads and Traffic Authority did not provide the technical support required to maintain this system. It was claimed that councils have invested a large amount of staff time and funds in implementing this system that appears now to be wasted.¹⁸³

¹⁷⁹ Submission No.39, Local Government and Shires Associations of NSW, p.3.

¹⁸⁰ Submission No.40, Alf Grigg & Associates, p.5.

¹⁸¹ Submission No.27, Bellingen Shire Council, p.2.

¹⁸² See for example, Submission No.11, Forbes Shire Council, p.2.; Submission No.13, Boorowa Council, p.3.

¹⁸³ Submission No.11, Forbes Shire Council, p.2.; Submission No.13, Boorowa Council, p.3.

5.11 CSR Emoleum suggested that although benchmarking is an effective driver for reform, it cannot operate effectively between councils and the NSW Roads and Traffic Authority.

“Benchmarking is a viable approach within an organisation where the organisation has the power and control over all service providers to enforce the adoption of improved work practices which the benchmarking process identifies as best productive practice. This situation does not exist in the RTA/Council supplier environment.”¹⁸⁴

Establishing benchmarks

5.12 The submissions, which supported the benchmarking approach over competition, nevertheless expressed caution with respect to accurately making comparisons between council areas. One submission noted that comprehensive benchmarking would probably demonstrate that many New South Wales councils do not achieve the cost-effectiveness that is being achieved in other states.¹⁸⁵ The view that New South Wales is not achieving a comparatively good return on investment was also expressed by the Minister for Roads during the Examination of Budget Estimates for 1999-2000 in September 1999.¹⁸⁶

5.13 The submission received from Bellingen Shire Council explained that any comparisons of operational performance and service, or work costs associated with operations between jurisdictions, were affected by the following factors:

- Climate – extremes of weather, rainfall, seasons and temperature;
- Topography – the physical relief of the region through which roads are maintained;
- Geology – geo-technical and groundwater table level influencing complexity of repair; and
- Isolation – provision of labour, plant hire and delivery of materials in an operational area.¹⁸⁷

¹⁸⁴ Submission No.25, CSR Emoleum, p.9.

¹⁸⁵ Submission No.40, Alf Grigg & Associates, p.5.

¹⁸⁶ General Purpose Standing Committee No. 4, Examination of Budget Estimates for 1999-2000, 16 September 1999, p.341.

¹⁸⁷ Submission No.27, Bellingen Shire Council, p.1.

5.14 Weddin Shire Council also expressed similar concerns.

“...the standards for benchmarking have yet to be defined but will need to properly reflect local conditions. For instance, scarcity of natural and crushed gravel and reliance on farm dams for water can markedly affect prices for different areas within one shire, much less from one shire to another.”¹⁸⁸

Cost effectiveness

5.15 In Chapter 4 a significant number of arguments were presented in regards to advantages in cost efficiency that are provided by CCT. As with CCT, opinions expressed in submissions varied with respect to whether satisfactory cost efficiencies would be achieved from benchmarking.

5.16 The submission from Alf Grigg & Associates indicated that costs could be reduced if benchmarks were accurate.

“I am confident that the RTA will reduce the costs of road maintenance if it can demonstrate that the comparative financial and operational benchmarks are valid. Demonstrating such relevance and validity in benchmarks presumes that the benchmarking data utilised by the RTA can be validated for relevance by topography, climate, scope and nature of the works and services, and costing system basis.”¹⁸⁹

5.17 Some concern was expressed by various councils regarding specific aspects of the proposed benchmarking approach, including prequalification for contracts and the size of contracts. With respect to prequalification, the submission from Weddin Shire Council noted that the benchmarking process might impose excessive costs on councils.

“...every council wishing to participate will require to be prequalified to a certain financial limit, and to implement appropriate quality control systems. This process is probably quite desirable but it will cost a significant amount for which there is no offsetting contribution.”¹⁹⁰

¹⁸⁸ Submission No.28, Weddin Shire Council, p.2.

¹⁸⁹ Submission No.40, Alf Grigg & Associates, p.8

¹⁹⁰ Submission No.28, Weddin Shire Council, p.1.

- 5.18** The submission from CSR Emoleum provided an unequivocal view that it saw little merit in adopting a benchmarking process to the exclusion of CCT.

“There is no evidence to suggest that the Government’s proposal to adopt “benchmarking contracts” with RTA and Local Government providers will achieve any savings. This situation is exacerbated by the lack of risk transfer, or incentive for innovation or productivity improvement, inherent in such arrangements.”¹⁹¹

- 5.19** The above submission cited the approach adopted by Queensland as evidence of cost savings not resulting from a benchmarking process between councils and the roads authority.

“There have been no reports of any significant savings from this approach. Moreover, it is understood that the limited number of contracts which were put to a competitive tender were won by private sector contractors, at prices materially lower than those applying to the negotiated “benchmark contracts”.”¹⁹²

- 5.20** The submission further argued that an arrangement between councils and the NSW Roads and Traffic Authority could not provide a verifiable cost efficiency specifically because of the lack of a competitive factor.

“Under this scenario there will be no competitive influences to ensure that the Government is achieving value-for-money from these arrangements. Whilst the RTA is proposing that contract pricing will be founded on benchmarking principles, it is difficult to imagine that this will give the RTA the ability to drive down costs in uncompetitive areas.”¹⁹³

Quality levels

- 5.21** The issue of quality should form an integral part of any road maintenance delivery process alternatives, including CCT and benchmarking.

- 5.22** A number of submissions received expressed the view that quality levels would improve with benchmarking. For example:

“I remain convinced that effective implementation of prequalification combined with rigorous external auditing of quality assurance systems will produce quantifiable quality of service improvements.”¹⁹⁴

¹⁹¹ Submission No.25, CSR Emoleum, p.2.

¹⁹² Submission No.25, CSR Emoleum, p.9

¹⁹³ Submission No.25, CSR Emoleum, p.9

¹⁹⁴ Submission No.40, Alf Grigg & Associates, p.8

- 5.23** As applied to CCT, concerns were also raised that any implementation of benchmarking should provide for a sufficient lead-time to enable councils to prepare for the process.

“[Benchmarking] changes will require adequate time for the training, business system, and cultural changes that will be essential in Local Government. Hurried implementation will only involve councils in unnecessary expenditure for developing expensive quality assurance systems that will be in advance of the organisational cultural changes that are essential for effective implementation.”¹⁹⁵

Adoption of benchmarking

- 5.24** The submissions received from a few councils indicated that they had already implemented or were in the process of adopting a benchmarking system. Port Stephens Council for example, explained:

Over the last five years, Port Stephens Council has been committed to reducing costs and improving efficiencies across our organisation through the implementation of benchmarking, improved work practices and adoption of industry best practices. Although there will always be improvements to be made because of new technology, our organisation is committed to meet the community’s expectations by providing the best possible product in the most cost efficient way.¹⁹⁶

- 5.25** Hastings Council indicated an intention to progress not only to benchmarking but further towards competitively tendering its own services:

Recently, Council has been addressing the issue of market testing its services by open tendering projects and services to compare internal provision of services against the market. To assist the initial six (6) areas selected, Council is planning to engage a consultant to facilitate workplace reform, the setting up of business units and benchmarking of internal services against industry norms.¹⁹⁷

Recommendation 2

The Standing Committee recommends that the criteria and performance of RTA work crews and local councils in road maintenance benchmarking be made publicly available.

¹⁹⁵ Submission No.40, Alf Grigg & Associates, p.8

¹⁹⁶ Submission No.31, Port Stephens Council, p.1.

¹⁹⁷ Submission No.14, Hastings Council, p.1.

Other policy approaches

5.26 As demonstrated in the comparative jurisdictions, the implementation of a road maintenance service delivery reform is not limited to solitary reliance on CCT and further, does not preclude reform through measures such as benchmarking where required.

Contrasting view on project delivery reform

5.27 Several submissions contended that there was no requirement to radically change the method of road maintenance delivery. The Orana Institute of Municipal Engineering, suggested that a more appropriate alternative to CCT includes:

- In each case, the RTA and Councils agree on the most appropriate work methods and procedures applicable to the work type in each area;
- Where standards need improving the RTA and Government/Authorities work with and assist the Council/local authority to train its employees to achieve necessary accreditation and skills; and
- For each specific work, quantities and costs are assessed and determined in accordance with agreed rates reflecting good work practices and performance and the work is funded in accordance with this. If specific problems occur in the execution of the work then these can be assessed in a similar manner to contract works, with an agreed result.¹⁹⁸

Formation of business units

5.28 Another approach to improve efficiency with respect to road maintenance, is for local councils to separate road maintenance operations into autonomous business units. These business units can operate in isolation of, or in conjunction with, neighbouring councils in conducting road maintenance activities. The formation of business units could be initiated under either CCT or benchmarking processes. The establishment of road maintenance business units enables opportunity for greater accountability and transparency in the cost and operation of road maintenance delivery. Separation of functions and operations into business units minimises scope for cross-subsidisation within an organisation and allows revenue and costs to be more clearly identified.

5.29 It was demonstrated by one submission that the Councils of Orange, Blayney, Oberon and Cabonne Council already coordinate joint tendering for sealing work and road linemarking. Cabonne Council advocates that the work conducted by the joint tender can package state, regional and local road works into the contract

¹⁹⁸ Submission No.2, Institute of Municipal Engineering, Orana Group, p.2.

specification to achieve price advantages and enjoy resource sharing savings at the same time.¹⁹⁹ Although councils may not be able to compete individually, it is apparent that significant economies of scale can be achieved by a cooperative effort.

Recommendation 3

The Standing Committee recommends that the Business Units formed should adhere to benchmarking processes.

Reverse auctions

- 5.30** The advent of e-commerce and widespread use of the Internet has provided for alternative methods of contract tendering. The submission received from Lowestbid Pty Ltd detailed the organisation's role in conducting reverse auctions on the Internet to drive down costs and force suppliers to be more innovative and competitive in their service delivery. A reverse auction is a process where a buyer lists their contract specifications or requirements and suppliers bid progressively lower prices in order to win the right of sale. Typical savings on the best-quoted or tendered price prior to a Lowestbid Reverse Auction are around 15-25%. It is argued by Lowestbid that not only are better prices achieved by a reverse auction but buyers are also assured of delivery as per specification, resulting in a fair and ethical system that is not subject to collusion or corruption.²⁰⁰

An integrated reform process

- 5.31** During the course of the Inquiry, the Standing Committee received submissions from a number of jurisdictions that have developed various road maintenance delivery methods. Valuable initiatives were also received from various submissions. The Standing Committee does not propose to make general recommendations, but it will watch with interest the outcomes from those jurisdictions. The Standing Committee has identified several elements that may be considered during the road maintenance reform process of road maintenance delivery on State roads and National Highways in New South Wales.

¹⁹⁹ Submission No.20, Cabonne Council, p.3.

²⁰⁰ Submission No.21, Lowestbid Pty Ltd, p.2; as further details is beyond the scope of the present Inquiry additional information may be obtained from www.lowestbid.com.au

Planned and timely implementation

- 5.32** It is the view of the Standing Committee that reform of road maintenance delivery should be conducted progressively with a clearly established time frame.
- 5.33** Whether a policy approach involves benchmarking, CCT or other mechanisms, it is necessary to afford all service delivery providers with an equal opportunity to compete effectively. This will enable a sufficient change management program to occur that is positive and beneficial to regional communities. This consideration was demonstrated by the experience of Transit New Zealand, which indicated that there is a need for taking small steps in any restructure, keeping risks small and progressing from schedule of rates to lump sum outcome oriented PSMCs.²⁰¹
- 5.34** In accordance with these views, the Standing Committee supports a staged implementation of road maintenance reform. The Standing Committee has attempted to address and evaluate the concerns of all parties in developing this strategy. The approach is innovative, effective and takes into account economic and social impacts of reform. The strategy is outlined as follows:
- Introduction of the reform package for the NSW Roads and Traffic Authority and council service deliverers intending to perform maintenance work on State Roads and National Highways, as was announced by the Minister on 30 November 1999. The objective is to increase efficiency of work practices, generate cost savings and improve quality of service delivery. The elements of this process may include:
 - Sufficient stakeholder consultation. Consultation between the NSW Roads and Traffic Authority, local councils and relevant employee representatives before a reform process proceeds.
 - Single invitation contracts. Provide service deliverers with a sufficient time frame (perhaps 2 years) in which to plan and implement change management;
 - Agreed prices. Agreement between the NSW Roads and Traffic Authority and local council on cost, timing and specification for quality;
 - Mandatory prequalification. Service deliverers will be required to meet the prequalification specifications in the areas of Occupational Health and Safety, environmental management and quality management systems. The NSW Roads and Traffic Authority have indicated they will work with and assist the councils to train employees to achieve necessary accreditation and skills;

²⁰¹ Submission No.9, ARRB Transport Research: "Road Maintenance by Contract – What are the Risks and Benefits?", Paul Robinson, p.1.

- Benchmarking. NSW Roads and Traffic Authority are committed to developing a benchmarking framework conducive to comparing costs and quality of work performed against industry best practice to reduce costs and improve quality to ensure value for money is achieved. Benchmarks must be well defined and must properly reflect local conditions such as isolation, scarcity of resources and topological issues.
- Where local councils do not wish to conduct routine maintenance works, these could be offered to open competition. Tender contracts could be used for benchmarking purposes to obtain value for money from sole invitee contractors. The unit rates from open competition contracts, with due allowance made for differences, can be used by NSW Roads and Traffic Authority to negotiate unit rates with local councils.

Appendix 1

Standing Committee on State Development

Inquiry into Road Maintenance
and Competitive Road
Maintenance Tendering

Submissions Received

November 2000

Submissions received

No	Author	Received
1	Private and confidential	3 November 1999
2	Mr Ian McLennan, President, Orana Group of the Institute of Public Works Engineering, Australia	8 November 1999
3	Mr Peter Black, General Manager, Marrickville Council	5 November 1999
4	Cr Ken McDonnell, Mayor, Sutherland Shire Council	5 November 1999
5	Mr Don Hains, President, Ballina Branch ALP	5 November 1999
6	The Hon J Richard Face MP, Minister for Gaming and Racing, Minister Assisting the Premier on Hunter Development	4 November 1999
7	Mr Alan Stewart, General Manager, Tallaganda Shire Council	4 November 1999
8	Mr Neville Armstrong, General Manager, Cowra Shire Council	24 September 1999
9	Mr Ray Taylor, General Manager, Research Division, ARRB Transport Research Ltd	10 November 1999
10	Mr R F Mowle, Director – Engineering Services, Mulwaree Shire Council	16 November 1999
11	Mr G J Haley, General Manager, Forbes Shire Council	16 November 1999
11a	Mr G J Haley, General Manager, Forbes Shire Council	22 November 1999
12	Ms Irene Moss OA, Commissioner, Independent Commission Against Corruption	19 November 1999
13	Cr Robert Gledhill, Mayor, Boorowa Council	25 November 1999
14	Mr B K Rollinson, Director of Engineering Services, Hastings Council	25 November 1999
15	Cr Peter Carman, Representative, Cudal & District Shire	26 November 1999
16	Mr James Roncon, General Manager, Carrathool Shire Council	26 November 1999
17	Mr Alan McCormack, General Manager, Parkes Shire Council	30 November 1999
18	Mr G L P Fleming, General Manager, Cabonne Council	6 December 1999
19	Mr R V Schipp, General Manager, Casino Council	7 December 1999
20	Mr G L P Fleming, Private Citizen	17 December 1999
21	Mr James Chisholm, Lowest Bid Pty Ltd	17 December 1999
22	Mr Don Ramsland, General Manager, Wellington Shire Council	17 December 1999
23	Private & confidential	17 December 1999
24	Mr Brian Harris, General Secretary, Federated Municipal & Shire Council Employees' Union of Australia (NSW Division)	17 December 1999
25	Mr Ray Fisher, Chief Executive Officer, CSR Emoleum	17 December 1999
26	Ms Ardele Blignault, Manager, Government & Regulatory Affairs, NRMA Limited	20 December 1999
27	Mr P J Doyle, General Manager, Bellingen Shire Council	17 December 1999
28	Mr T V Lobb, General Manager, Weddin Shire Council	22 December 1999

29	Mr Trevor Argent, Executive Director Transport, Department of Transport (South Australia)	22 December 1999
30	Mr Gary Arnold, General Manager, Hume Shire Council	22 December 1999
31	Mr Steve Glendenning, Civil Assets Engineer, Port Stephens Council	22 December 1999
32	Mr Jack Garside, General Manager, Narromine Shire Council	4 January 2000
33	Ms Janet Good, General Secretary, Public Service Association of New South Wales	4 January 2000
34	Mr Paul Forward, Chief Executive, Roads and Traffic Authority, New South Wales	4 January 2000
35	Mr J.J. Gossage, General Manager, Yallaroi Shire Council	5 January 2000
36	Mr Colin Jordan, Chief Executive, Vic Roads	13 January 2000
37	Mr Keith Wenban, Infrastructure Manager – Roads, Transfield (Not publicly available)	24 January 2000
38	Mr Hamish McNulty, General Manager, ACT Roads and Stormwater	21 January 2000
39	Mr Murray Kidnie, Secretary, Local Government and Shires Association of NSW	28 January 2000
40	Mr Alf Grigg, Owner, Alf Grigg & Associates	9 February 2000
41	Mr Dave McHugh, Secretary - Infrastructure Services, Northern Territory Department of Transport & Works	28 February 2000
42	The Hon Steve Bredhauer MP, Queensland Government, Minister for Transport and Minister for Main Roads	14 March 2000
43	Mr Neville Potter, Assistant Secretary Roads Investment, Commonwealth Department of Transport and Regional Services	15 March 2000
43a	Mr Neville Potter, Assistant Secretary Roads Investment, Commonwealth Department of Transport and Regional Services	16 August 2000

Appendix 2

Standing Committee on State Development

Inquiry into Road Maintenance
and Competitive Road
Maintenance Tendering

Previous Publications

November 2000

Previous Publications

Discussion Paper 1	<i>Public Sector Tendering & Contracting in New South Wales: A Survey</i>	May 1989
Report 1	<i>Public Sector Tendering & Contracting in New South Wales: Supply of Goods and Services</i>	August 1989
Report 2	<i>Public Sector Tendering & Contracting in New South Wales: Local Government Tendering & Contracting</i>	October 1989
Discussion Paper 2	<i>Coastal Development in New South Wales: Public Concerns & Government Processes</i>	November 1989
Discussion Paper 3	<i>Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting: Management Options</i>	June 1990
Report 3	<i>Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting. Volume A</i>	April 1991
Report 4	<i>Coastal Planning & Management in New South Wales: A Framework for the Future. Volume 1</i>	September 1991
Supplement to 4	<i>An Alternative Dispute Resolution Primer</i>	September 1991
Report 5	<i>Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting. Volume B</i>	December 1991
Report 6	<i>Payroll Tax Concessions for Country Industries. Volume I</i>	December 1991
Report 7	<i>Public Sector Tendering & Contracting in New South Wales: Supply of Goods and Services: Follow Up Report</i>	June 1992
Report 8	<i>Coastal Planning & Management in New South Wales: The Process for the Future. Volume II</i>	October 1992
Report 9	<i>Public Sector Tendering & Contracting in New South Wales: Local Government Tendering & Contracting: Follow Up Report</i>	April 1993
Discussion Paper 4	<i>Regional Business Development in New South Wales: Trends, Policies and Issues.</i>	August 1993
Report 10	<i>Regional Business Development in New South Wales: Achieving Sustainable Growth: Principles for Setting Policy. Volume I</i>	May 1994
Report 11	<i>Regional Business Development in New South Wales: Achieving Sustainable Growth: Initiatives for Setting Policy. Volume II</i>	November 1994
Report 12	<i>Rationales for Closing the Veterinary Laboratories At Armidale and Wagga Wagga and the Rydalmere Biological and Chemical Research Institute</i>	August 1996
Report 13	<i>Factors Influencing the Relocation of Regional Headquarters of Australian and Overseas Corporations to New South Wales</i>	October 1996
Report 14	<i>Interim Report on the Fisheries Management Amendment (Advisory Bodies) Act 1996</i>	April 1997
Report 15	<i>Waste Minimisation and Management</i>	April 1997
Report 16	<i>The Fisheries Management Amendment (Advisory Bodies) Act 1996</i>	July 1997
Discussion Paper 5	<i>Future Employment and Business Opportunities in the Hunter Region</i>	October 1997
Report 17	<i>Fisheries Management and Resource Allocation in New South Wales</i>	November 1997
Report 18	<i>Operations of the Sydney Market Authority (Dissolution) Bill from Commencement until 31 December 1997</i>	March 1998
Discussion Paper 6	<i>International Competitiveness of Agriculture in New South Wales</i>	May 1998
Report 19	<i>Future Employment and Business Opportunities in the Hunter Region; and The Downsizing of the Rack Rite Investment Proposal</i>	July 1998
Report 20	<i>Interim Report on the Provision and Operation of Rural and Regional Air Services in New South Wales</i>	September 1998

Report 20 Vol 1	<i>Report on the Use and Management of Pesticides in New South Wales</i>	September 1999
Report 20 Vol 2	<i>Report on the Use and Management of Pesticides in New South Wales – Transcripts of Evidence 21 June 1999 to 5 August 1999</i>	September 1999

Appendix 3

Standing Committee on State Development

Inquiry into Road Maintenance
and Competitive Road
Maintenance Tendering

Minutes of Meetings

November 2000

Minutes



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Friday 17 September 1999
At Parliament House at 9:30 am

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Mr Cohen
Mr Johnson
Dr Pezzutti

2. APOLOGIES

Mr Macdonald

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Johnson, that the minutes of meeting number 7 be confirmed.

4. BUSINESS ARISING

Nil.

6. GENERAL BUSINESS

The Chair tabled a letter from Mr Carl Scully, Minister for Transport and Minister for Roads, to Chair, dated 16 September 1999, requesting that the Standing Committee on

State Development inquire into and report on issues relating to road maintenance and competitive tendering (letter attached).

The Committee deliberated.

7. ADJOURNMENT

The meeting adjourned at 3.00 pm until Monday, 20 September 1999 at 2:00 pm.

Steven Carr
Director



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Minutes No. 10

Thursday 23 September 1999
At Parliament House at 3:55 pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Mr Cohen
Mr Johnson
Dr Pezzutti

2. APOLOGIES

Mr Macdonald

3. TABLED DOCUMENTS

3.1 CORRESPONDENCE RECEIVED

The Chair tabled two items of correspondence received.

Letter from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to Chair, dated 22 September 1999, advising that the terms of reference provided to the Committee in relation to road maintenance and competitive road maintenance tendering is sufficient to encompass the social impacts of Federal and State policies (attached).

4. INQUIRY INTO ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING

The Chair tabled draft terms of reference.

The Committee deliberated.

Resolved, on motion of Dr Pezzutti, that the terms of reference be advertised in media nationally, along with a call for submissions in relation to the inquiry, with a closing date for submissions to be determined by the Chair in consultation with the Director.

The Committee deliberated.

Resolved, on motion of Dr Pezzutti, that the Director furnish the Committee with details of tied and untied road maintenance funding grants from the Commonwealth Government to the New South Wales Government for the previous four financial years.

6. ADJOURNMENT

The meeting adjourned at 4.15 pm *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Minutes No. 11

Thursday 25 November 1999
At Parliament House at 3:55 pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Mr Cohen
Mr Johnson

2. APOLOGIES

Mr Macdonald

Resolved, on motion of Mr Johnson, the Committee note that the Legislative Council granted Dr Pezzutti leave of absence from 15 November to 18 December 1999.

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Cohen, that the minutes of meeting number 8, 9 and 10 be confirmed.

5. TABLED DOCUMENTS

5.1 SUBMISSIONS

5.1.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING

The Chair tabled 12 submissions sent to the Committee in relation to its inquiry into road maintenance and competitive road maintenance tendering.

Submission 1 – Mr J R Smith, dated 3 November 1999.

Submission 2 - Mr Ian McLennan, President, Orana Group of the Institute of Municipal Engineering, Australia, dated 8 November 1999.

Submission 3 – Mr Peter Black, General Manager, Marrickville Council, dated 5 November 1999.

Submission 4 – Cr Ken McDonell, Mayor, The Council of Sutherland Shire, dated 5 November 1999.

Submission 5 – Mr Don Hains, President, Ballina Branch, ALP, dated 5 November 1999.

Submission 6 – The Hon Richard Face, MP, Minister for Gaming and Racing and Minister Assisting the Premier on Hunter Development, dated 4 November 1999.

Submission 7 – Mr Alan Stewart, General Manager, Tallaganda Shire Council, dated 4 November 1999.

Submission 8 – Mr Neville Armstrong, General Manager, Cowra Shire Council, dated 8 November 1999.

Submission 9 – Mr Ray Taylor, General Manager, Research Division, ARRB Transport Research Limited, dated 10 November 1999.

Submission 10 – R F Mowle, Director, Engineering Services, Mulwaree Shire Council, dated 16 November 1999.

Submission 11 – G J Haley, General Manager, Forbes Shire Council, dated 16 November 1999.

Submission 12 – Ms Irene Moss AO, Commissioner, Independent Commission Against Corruption, dated 19 November 1999.

5.3 CORRESPONDENCE RECEIVED

The Chair tabled two items of correspondence received:

Letter from the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, to Chair, dated 12 October 1999, outlining areas of social and economic impact relevant to the inquiry into road maintenance and competitive road maintenance tendering.

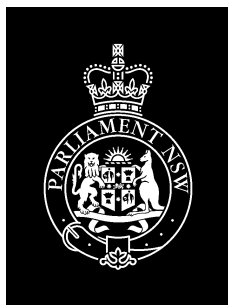
7. GENERAL BUSINESS

Nil

8. ADJOURNMENT

The meeting adjourned at 4.20 pm *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Minutes No. 12

Friday 3 March 2000

At Parliament House at 1:40 pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)

Dr Pezzutti

Mr Cohen

Mr Johnson

Mr Macdonald

2. APOLOGIES

NIL

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Cohen, that the minutes of meeting number 11 be confirmed.

5. TABLED DOCUMENTS

5.1 SUBMISSIONS

5.1.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING

The Chair tabled 30 submissions sent to the Committee in relation to its inquiry into road maintenance and competitive road maintenance tendering.

Supplementary submission 11 – Mr G J Haley, General Manager, Forbes Shire Council, dated 22 November 1999.

- Submission 13 – Cr Robert Gledhill, Mayor, Boorowa Council, 25 November 1999.
- Submission 14 – B K Rollinson, Director of Engineering Services, Hastings Council, dated 25 November 1999.
- Submission 15 – Cr Peter Carman, representative, Cudal and District, dated 26 November 1999.
- Submission 16 – Mr James Roncon, General Manager, Carrathool Shire Council, dated 26 November 1999.
- Submission 17 – Mr Alan McCormack, General Manager, Parkes Shire Council, dated 30 November 1999.
- Submission 18 – G P L Fleming, General Manager, Cabonne Council, dated 6 December 1999.
- Submission 19 – Mr R V Schipp, General Manager, The Council of Casino, dated 7 December 1999.
- Submission 20 – G P L Fleming, General Manager, Cabonne Council, dated 17 December 1999.
- Submission 21 – Mr James Chisholm, Lowest Bid Pty Ltd, dated 17 December 1999.
- Submission 22 – Mr Don Ramsland, General Manager, Wellington Shire Council, dated 17 December 1999.
- Submission 23 – Cr J S Farr, Mayor, Cabonne Council, dated 17 December 1999.
- Submission 24 – Mr Brian Harris, General Secretary, Federated Municipal and Shire Council Employees' Union of Australia (NSW Division), dated 17 December 1999.
- Submission 25 – Mr Ray Fisher, Chief Executive Officer, CSR Emoleum, dated 17 December 1999.
- Submission 26 – Ms Ardele Blignault, Manager, Government and Regulatory Affairs, NRMA Limited, dated 20 December 1999.
- Submission 27 – Mr P J Doyle, General Manager, Bellingen Shire Council, dated 17 December 1999.
- Submission 28 – Mr T V Lobb, General Manager, Weddin Shire Council, dated 22 December 1999.
- Submission 29 – Mr Trevor Argent, Executive Director Transport, Department of Transport (South Australia), dated 22 December 1999.
- Submission 30 – Mr Gary Arnold, General Manager, Hume Shire Council, dated 22 December 1999.
- Submission 31 – Mr Steve Glendenning, Civil Assets Engineer, Port Stephens Council, dated 22 December 1999.
- Submission 32 – Mr Jack Garside, General Manager, Narromine Shire Council, dated 4 January 2000.
- Submission 33 – Ms Janet Good, General Secretary, Public Service Association of New South Wales, dated 4 January 2000.
- Submission 34 – Mr Paul Forward, Chief Executive Officer, Roads and Traffic Authority, New South Wales, dated 4 January 2000.

Submission 35 – Mr J J Gossage, General Manager, Yallaroi Shire Council, dated 5 January 2000.

Submission 36 – Mr Colin Jordan, Chief Executive, VicRoads, dated 13 January 2000.

Submission 37 – Mr Keith Wenban, Infrastructure Manager, Transfield, dated 24 January 2000.

Submission 38 – Mr Hamish McNulty, General Manager, ACT Roads and Stormwater, dated 21 January 2000.

Submission 39 – Mr Murray Kidnie, Secretary, Local Government and Shires Association of NSW, dated 28 January 2000.

Submission 40 – Mr Alf Grigg, Owner, Alf Grigg & Associates, dated 9 February 2000.

Submission 41 – Mr Dave McHugh, Secretary, Infrastructure Services, Northern Territory Department of Transport and Works, dated 28 February 2000.

5.1.1.1 SUBMISSIONS REQUESTED NOT TO BE MADE PUBLIC

Submission 37 – Mr Keith Wenban, Infrastructure Manager, Transfield, dated 24 January 2000.

5.1.1.2 SUBMISSIONS IDENTIFIED AS PRIVATE AND CONFIDENTIAL

Submission 1 – Mr J R (Ral) Smith, dated 3 November 1999.

Submission 23 – Cr J S Farr, Mayor, Cabonne Council, dated 17 December 1999.

The Committee deliberated.

Resolved, on motion of Mr Johnson, that all submissions received to date for the road maintenance and competitive road maintenance inquiry, with the exception of submissions numbered 1, 23 and 37, be made publicly available.

5.2 CORRESPONDENCE RECEIVED

The Chair tabled four items of correspondence received:

Letter from Mr Paul Gelston, Manager, Statewide Operational Coordination, Transport SA, to Director, dated 16 February 2000, responding to Director's correspondence of 15 February 2000, concerning economic and social impacts of road maintenance operations.

Letter from Mr Paul Forward, Chief Executive, Roads and Traffic Authority, New South Wales, to Director, dated 28 February 2000, responding to Director's correspondence of 14 February 2000, concerning issues of road maintenance operations.

Letter from J C N Varghese, Director-General, Queensland Department of Main Roads, to Director, dated 23 February 2000, responding to Director's correspondence of 15 February 2000, concerning economic and social impacts of road maintenance operations.

Letter from Mr Colin Jordan, Chief Executive, VicRoads, to Director, dated 1 March 2000, responding to Director's correspondence of 15 February 2000, concerning economic and social impacts of road maintenance operations.

5.3 CORRESPONDENCE SENT

The Chair tabled two items of correspondence sent:

Letter from Director, to Mr Paul Forward, Chief Executive, Roads and Traffic Authority, New South Wales, dated 14 February 2000, requesting information concerning road maintenance operations.

Letter from Director, to Mr Paul Gelston, Transport SA, dated 15 February 2000, requesting information concerning the economic and social impacts of road maintenance operations.

6. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair tabled the draft report outline.

The Committee deliberated.

Resolved, on motion of Mr Macdonald, that the Committee adopt the draft report outline.

The Committee deliberated.

Resolved, on motion of Mr Macdonald, that at the completion of the draft report, the Committee considers options for interest group consultation on report contents.

8. GENERAL BUSINESS

Nil

9. ADJOURNMENT

The meeting adjourned at 2:35 pm, until Tuesday 21 March 2000 at 9:30 am.

Steven Carr
Director



LEGISLATIVE COUNCIL

Minutes No. 15

Wednesday 12 April 2000

At Parliament House (Room 1136) at 7:00pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Dr Pezzutti
Mr Cohen
Mr Johnson

2. APOLOGIES

Mr Macdonald

3. CONFIRMATION OF MINUTES

Resolved, on motion of Dr Pezzutti, that the minutes of meeting numbers 12, 13 and 14 be confirmed.

4. BUSINESS ARISING

Nil

5. TABLED DOCUMENTS

5.1 SUBMISSIONS

5.1.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING

The Chair tabled 2 submissions sent to the Committee in relation to its inquiry into road maintenance and competitive road maintenance tendering.

Submission 42 – The Hon. Steve Bredhauer, MP, Minister for Transport and Minister for Main Roads (QLD), dated 14 March 2000.

Submission 43 – Mr Neville Potter, Assistant Secretary Roads Investment, Commonwealth Department of Transport and Regional Services, dated 15 March 2000.

6. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

6.1 DRAFT REPORT VERSION 1

The Chair submitted chapters 1, 3 and 4 of his draft report entitled “Road Maintenance and Competitive Road Maintenance Tendering” which, having been circulated to each Members of the Committee, was accepted as being read.

The Committee proceeded to consider chapters 1, 3, and 4 of the draft report.

Resolved, on motion of Dr Pezzutti, that Chapter 1 be adopted, as amended.

Resolved, on motion of Dr Pezzutti, that Chapter 3 be adopted, as amended.

Resolved, on motion of Mr Cohen, that Chapter 4 be adopted, as amended.

8. ADJOURNMENT

The meeting adjourned at 7:55pm, *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

Minutes No. 16

Wednesday 3 May 2000
At Parliament House (Room 1136) at 6:30pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair) from 6:50pm
Dr Pezzutti (in the Chair) from 6:30pm to 6:50pm
Mr Johnson
Mr Macdonald

2. APOLOGIES

Mr Cohen

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Johnson, that the minutes of meeting number 15 be confirmed.

4. BUSINESS ARISING

Nil

5. TABLED DOCUMENTS

5.2 CORRESPONDENCE RECEIVED

The Chair tabled one item of correspondence received:

Letter from Mr Mike Hannon, Road Network Infrastructure Directorate, NSW Roads and Traffic Authority, to Director, dated 14 April 2000, outlining the RTA's ledger of Commonwealth Government funding for 1995-96 to 1999-00.

6. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

6.1 DRAFT REPORT VERSION 1

The Chair submitted chapter 5 of his draft report entitled "Road Maintenance and Competitive Road Maintenance Tendering" which, having been circulated to each Members of the Committee, was accepted as being read.

The Committee proceeded to consider chapter 5 of the draft report.

The Committee deliberated.

Resolved, on motion of Dr Pezzutti, that Chapter 5 be adopted, as amended.

6.2 PUBLISHING OF REPORT

The Chair tabled three quotations for the cost of publishing the report entitled "Road Maintenance and Competitive Road Maintenance Tendering."

The Committee deliberated.

Resolved, on motion of Mr Johnson, that the Committee request Parliamentary Printing Services to publish 300 copies of the report on Nautilus recycled paper.

7. ADJOURNMENT

The meeting adjourned at 7:30pm, *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

Minutes No. 18

Tuesday 8 August 2000

At Parliament House, (Room 1136) at 1:15pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Dr Pezzutti
Mr Johnson

2. APOLOGIES

Mr Cohen
Mr Macdonald

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Johnson: that the Minutes of meetings numbered 16 and 17 be confirmed.

4. TABLED DOCUMENTS

4.2 CORRESPONDENCE RECEIVED

The Chair tabled the following two items of correspondence received:

Letter from Mr Mike Hannon, Road Network Infrastructure Directorate, NSW Roads and Traffic Authority, to Director, dated 14 April 2000, outlining the RTA's ledger of Commonwealth Government funding for 1995-96 to 1999-00 (attached).

6. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair submitted chapter 2 of his draft report entitled “Road Maintenance and Competitive Road Maintenance Tendering” which, having been circulated to each Members of the Committee, was accepted as being read.

The Committee proceeded to consider chapter 2 of the draft report.

The Committee deliberated.

Resolved, on motion of Dr Pezzutti, that: estimated road maintenance expenditure for 1999-2000 be replaced with actual expenditure where possible.

Resolved, on motion of Dr Pezzutti, that: page 24, paragraph 2, Committee analysis, be amended by deleting:

“The Standing Committee advocates the adherence by the NSW Roads and Traffic Authority to these Service Competition Guidelines in its establishment of benchmarking practices for maintenance of State Funded roads.”

and inserting instead:

“Recommendation 1

The Standing Committee recommends the NSW Roads and Traffic Authority adhere to the NSW Service Competition Guidelines in its establishment of benchmarking practices for maintenance of State Funded roads.”

Resolved, on motion of Dr Pezzutti, that: further consideration of the chapter 2 be adjourned until the next committee meeting.

7. ADJOURNMENT

The meeting adjourned at 3:10pm, *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

Minutes No. 19

Tuesday 10 October 2000
At Parliament House, (Room 1136) at 1:15pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Dr Pezzutti
Mr Cohen
Mr Johnson

2. APOLOGIES

Mr Macdonald

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Johnson, that: the Minutes of meeting number 18 be confirmed.

5. TABLED DOCUMENTS

5.1 SUBMISSIONS

5.1.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair tabled the following two supplementary submissions:

Supplementary submission 2 – Mr Ian McLennan, President, Orana Group of the Institute of Public Works Engineering, Australia, dated 28 March 2000.

Supplementary submission 43 – Mr Barry O’Neil, representative, Commonwealth Department of Transport and Regional Services, dated 16 August 2000.

5.2 CORRESPONDENCE RECEIVED

5.2.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair tabled the following item of correspondence received:

Letter from Mr Mike Hannon, Road Network Infrastructure Directorate, NSW Roads and Traffic Authority, to Director, dated 25 August 2000, outlining the RTA’s ledger of Commonwealth Government funding and the RTA’s Consumer Price Index figures for 1995-96 to 1999-00 (including actual figures for 1999-2000) (attached).

6. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE INQUIRY

Resumption of previously adjourned deliberations on Chapter 2.

The committee deliberated.

Resolved, on motion of Dr Pezzutti, that: page 6, be amended by inserting:

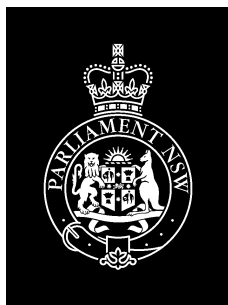
The High Court decision of *Ha v New South Wales*, held by majority that duties of excise applied by a State were invalid under s.90 of the *Commonwealth Constitution Act 1901*. Following this ruling the Commonwealth collected a range of taxes, including petroleum excise, on behalf of the States under s.90 “safety net” arrangements. After 1 July 2000, mechanisms have been put in place to ensure that, as a minimum, the same financial results for motorists and the New South Government are achieved. Further, these funds will no longer be tied to roads expenditure as was the case under the 3x3 legislation.

Resolved, on motion of Dr Pezzutti, that: further consideration of the chapter 2 be adjourned until the next committee meeting.

7. ADJOURNMENT

The meeting adjourned at 2:00pm, until 1:15pm on Friday, 13th October 2000, in room 1136.

Steven Carr
Director



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Minutes No. 20

Friday 13 October 2000

At Parliament House, (Members lounge) at 1:15pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Dr Pezzutti
Mr Cohen

2. APOLOGIES

Mr Johnson
Mr Macdonald

3. TABLED DOCUMENTS

3.2 CORRESPONDENCE SENT

The Chair tabled correspondence to the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, requesting information concerning actual total expenditure for Road Network Infrastructure, Maintenance, for 1999-2000.

4. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE INQUIRY

Consideration of draft report chapter's 2 and 6 (previously circulated on 12 September 2000).

The committee deliberated.

Resolved, on motion of Dr Pezzutti, that: further consideration of the chapter 2 be adjourned until the next committee meeting.

5. ADJOURNMENT

The meeting adjourned at 1:25pm, *sine die*.

Steven Carr
Director



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Minutes No. 21

Wednesday 1 November 2000
At Parliament House, (Room 1136) at 1:20pm

1. MEMBERS PRESENT

Mr Kelly (in the Chair)
Mr Cohen
Mr Johnson
Mr Macdonald

2. APOLOGIES

Dr Pezzutti

3. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Cohen: that the minutes of meetings numbered 19 and 20 be confirmed.

4. TABLED DOCUMENTS

4.1 CORRESPONDENCE RECEIVED

4.1.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair tabled the following item of correspondence received:

Correspondence from Mr Mike Hannon, Director, Road Network Infrastructure, NSW Roads and Traffic Authority, dated 27 October 2000, responding to a committee request for information concerning actual total expenditure for Road Network Infrastructure, Maintenance, for 1999-2000.

4.2 CORRESPONDENCE SENT

4.2.1 ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE TENDERING INQUIRY

The Chair tabled the following item of correspondence sent.

Facsimile to the Hon. Carl Scully, MP, Minister for Transport and Minister for Roads, requesting information relating to the NSW RTA's benchmarking programs and Maintenance Management System, dated 18 October 2000.

5. ROAD MAINTENANCE AND COMPETITIVE ROAD MAINTENANCE INQUIRY

5.1 DRAFT REPORT VERSION 1

The committee resumed consideration of draft report chapter's 2 and 6 (previously circulated on 12 September 2000).

The committee deliberated.

Resolved, on motion of Mr Macdonald: that draft report chapter's 2 and 6 be adopted, as amended.

5.2 DRAFT REPORT VERSION 2

The Chair submitted draft report version 2 entitled "Road Maintenance and Competitive Road Maintenance Tendering" which, having been circulated to each Member of the committee, was accepted as being read.

The committee proceeded to consider draft report version 2.

The committee deliberated.

Resolved, on motion of Mr Macdonald: that draft report version 2 be adopted, as amended.

Resolved, on motion of Mr Macdonald: that the report be signed by the Chair and presented to the House in accordance with the resolution establishing the committee of 25 May 1999.

Resolved, on motion of Mr Macdonald: that pursuant to the provisions of section 4 of the *Parliamentary Papers (Supplementary Provisions) Act 1975* and under the authority of Standing Order 252, the Committee authorises the Clerk of the Committee to publish the report, submissions and related documents with the exception of documents identified as “private and confidential” or “not publicly available”.

6. ADJOURNMENT

The meeting adjourned at 1:50pm, *sine die*.

Steven Carr
Director

Appendix 4

Standing Committee on State Development

Inquiry into Road Maintenance
and Competitive Road
Maintenance Tendering

Media Release

The Hon Carl Scully MP

Tuesday 30 November 1999

November 2000

THE HON CARL SCULLY MP

Minister for Roads
Minister for Transport



MEDIA RELEASE

Tuesday 30 November 1999

STATE ROAD MAINTENANCE JOBS PROTECTED

Competitive tendering of State road maintenance will not be introduced in NSW, the Minister for Transport, Mr Carl Scully, said today.

Visiting Bathurst at the invitation of Country Labor MP Gerard Martin, Mr Scully said he had reviewed the issue following consultations with the Roads and Traffic Authority, Country Labor, local councils and unions.

Instead of competitive tendering, local councils and RTA road crews will continue to carry out State road maintenance and a new system of standards, known as benchmarking, will be introduced to guarantee a high quality of work and reduced maintenance costs.

"The RTA has rightly sought to reduce the growing cost of road maintenance and reinvest the savings directly into new and better roads, but I acknowledge that there are some legitimate concerns about the impact on country jobs," Mr Scully said.

"In revising its proposal, the RTA has found another way of delivering real savings to taxpayers which guarantees a high quality of work by local councils, while protecting the jobs of road workers.

"This outcome has resulted from co-operative discussions between the RTA, councils, unions and local MPs.

"I want to thank Country Labor in particular for strongly putting the case that the Government needed to be sensitive to the impact on jobs and rural communities."

From 1 July, 2000, the RTA will set benchmark standards for State road maintenance which establishes greater accountability for all aspects of roadwork carried out by local councils.

Under the revised model:

- A Maintenance Qualification System will require councils to show their ability to meet standards for roadwork quality, worker safety, traffic safety and environmental protection.
- Required standards will vary depending on the scale of work being undertaken, to ensure that small councils can qualify for small scale works in their local area.
- The RTA will invite local councils to enter contracts for road maintenance work which specify in detail what work needs to be done and set an appropriate fixed price.
- Existing contracts for RTA maintenance works on State roads in metropolitan areas will continue.
- Funds will continue to be allocated on a needs basis to ensure that the road network is properly maintained statewide.
- Savings from the new system will be reinvested in the road network.

"This revised proposal shows that the Government is serious about finding ways to spend more on improving our roads by saving costs but at the same time protecting country jobs," Mr Scully said.

Contact: Jodie Brough (02) 9228 4455 or (0411) 020 292

RTA Road Maintenance Reform Package

In May 1999 the RTA commenced a reform program for the delivery of road maintenance services on State roads and National Highways:

- To improve the quality of maintenance work on State roads/National highways;
- To encourage RTA work crews and councils to improve work site safety and environmental standards applying to work on State roads and National highways;
- To reduce the cost of maintenance expenditure and re-invest savings into more road works.

Draft RTA Position - Compulsory Competitive Tendering

- During the course of 1999 the RTA consulted widely with RTA staff, unions and Local Government on an initial proposal to progressively introduce compulsory competitive tendering for maintenance work on State Roads and National Highways.
- Local Government expressed concern that compulsory competitive tendering would disadvantage councils, particularly smaller rural councils and possibly lead to job losses and consequent social impacts in rural NSW. Local Government indicated a strong preference for benchmarking of services to be provided by existing suppliers (RTA and Local Government) as a preferred option to reduce the cost of road maintenance.

Revised RTA Maintenance Reform Package- Benchmarking of RTA and Local Government through Single Invitation Contracts

The RTA has now developed a revised model for the delivery of State Road maintenance services, which balances cost savings with the NSW Government's commitments to regional development, social justice and rural employment sustainability.

The revised package includes:

- **Single Invitation Contracts and Agreed Prices:** Existing RTA and Local Government road maintenance organisations will be offered single invitation contracts to continue providing road maintenance services on State roads and National Highways at agreed prices and with commitments as to timing and quality of work.
- **Mandatory Prequalification:** All RTA and Local Government service deliverers intending to perform maintenance work on State Roads and National Highways will be required to meet the RTA's pre-qualification specifications in the areas of Occupational Health and Safety, environmental management and quality management systems. This will apply for any maintenance work on State Roads from 1 July 2000.
- **Application of Benchmarking:** The RTA will compare costs and quality of work performed against industry best practice and will negotiate with service deliverers to reduce costs and improve quality to ensure value for money for taxpayers is being obtained.

30 November 1999