

A FRAMEWORK FOR THE TRANSFER OF A DEPARTMENTAL ROAD CONSTRUCTION UNIT TO A PRIVATE SECTOR CONSTRUCTION COMPANY

R STEWART, P A PIENAAR*, A J PIENAAR**, R MALELE** and S D PHILLIPS**

UWP Engineers (Pty) Ltd, P O Box 1390, Pietersburg, 0700

*Nyeleti Consulting (Pty) Ltd, P O Box 95158, Menlo Park, 0102

**Department of Public Works, Northern Province, Private Bag X9490, Pietersburg, 0700

ABSTRACT

The Northern Province Department of Public Works committed itself to improved service delivery. One of the most severe problems experienced by the Department is that the extent of personnel expenses are out of proportion when compared to other expenses. Personnel expenses can be reduced by outsourcing non-core functions of the department, for example road construction. In the case of the departmental road construction unit it has been decided to transfer the unit, including staff and equipment, to a suitable private sector construction company. The paper addresses the composition and performance of the road construction unit, staff issues and the interaction with organised labour, the invitation of expressions of interest from private sector road construction companies and the shortlisting of these companies for the tendering phase. A framework for the process of tendering for and implementation of the transfer of staff and equipment is then addressed. The transfer of the unit is linked to a road construction project, which will facilitate the merging of the unit into the organisation of the successful tenderer. As this is seen as a pilot project it is believed that similar projects will follow in future, and is it anticipated that the experience gained will be of value to those responsible for the implementation of similar projects.

INTRODUCTION

The bloated civil service in the Northern Province is symptomatic of a national phenomenon whereby an unacceptably high proportion of the fiscus is expended on salaries. High personnel costs necessarily negatively impact on the capacity of government to honour its undertaking of service delivery, and the construction and maintenance of civil infrastructure.

The need to address the problem of overstaffing of government departments has been recognised by the national Department of Public Service and Administration (DPSA). A number of initiatives to address the problem have been embarked on, one of which is the outsourcing of road construction activities to the private sector. The development and implementation of a framework to facilitate the outsourcing process was funded by the British Government's Department for International Development (DFID). If successful, this framework is to be used as a model for implementation in other provinces in South Africa.

The outsourcing of road construction activities in the Northern Province encompasses the in toto transfer of the departmental road construction unit (RCU) of the Northern Province Public Works Department (NPPWD) to a private sector road construction company by means of a competitive bidding process. The successful bidder is to be awarded a guaranteed quantum of road construction work by the Northern Province Roads Agency (NPRO) on order to facilitate absorbing the RCU into its organisation.

This paper addresses the following issues:

- A brief overview of the policy of the government in respect of strategies to rationalise the civil service whilst simultaneously minimising job losses.
- The appointment of a team of consultants to compile the framework for the outsourcing process.
- An overview of the origins of the RCU.
- An assessment of the structure and performance of the RCU relative to private sector construction industry norms.
- An overview of the process whereby expressions of interest were invited from the private sector construction industry in respect of the transfer of the RCU to a commercial road construction organisation.
- A summary of the process employed to assess the submissions received from the private sector, including the criteria used to compile a shortlist of proponents
- An overview of recommendations made to the NPPWD regarding the implementation phase of the project.
- A report on the current status of the project.

OVERVIEW OF GOVERNMENT'S RATIONALISATION POLICY

Government's policy to rationalise the civil service and to enhance the level of service provision by the public sector includes, amongst other strategies, the outsourcing of certain activities currently being performed by the public sector to the private sector. An example of such an activity is road construction. As a result of the policy to outsource these activities to the private sector, personnel and equipment resources which are currently engaged in performing the activities will be rendered redundant.

Government policy in respect of civil service rationalisation further states that such rationalisation is to be achieved with minimum loss of employment. One way to achieve this objective is to transfer units currently responsible for activities to be outsourced to the private sector as "going concerns" in accordance with the stipulations of Section 197 of the Labour Relations Act (LRA). The transfer of a unit as a going concern in essence entails the in total and permanent transfer of all assets (including personnel and equipment resources) and liabilities to a new parent organisation. Of particular importance is the post-transfer retention of all existing terms and conditions of employment by personnel transferred in terms of Section 197 of the LRA.

APPOINTMENT OF CONSULTING TEAM

A team of consultants was appointed by DFID in consultation with the NPPWD and the NPRA to undertake the development of the framework for the pilot project for the outsourcing of road construction activities in the Northern Province. This outsourcing process was to include the transfer of the RCU to a private sector road construction company in terms of Section 197 of the Labour Relations Act.

The consulting team, known as the *Re-a-shoma* Consortium, was appointed following a tender process and a series of interviews with consultants acting on behalf of DFID and DPSA, as well as representatives of both the NPPWD and the NPRA. The *Re-a-shoma* Consortium comprises Nyeleti Consulting, UWP Engineers, Resolve – Workplace Solutions, and RB Project Management. Nyeleti Consulting and UWP Engineers are civil engineering consultants with experience in the road construction industry, whilst Resolve – Workplace Solutions are human resource and labour

relations specialists. The fourth member of the consortium, RB Project Management, was engaged to undertake a pilot commercialisation project for a number of road maintenance units and was thus not directly involved in the outsourcing process.

The diverse skills and experience of the *Re-a-shoma* Consortium enabled the team to assess and address the technical, contractual, and legal demands of the project.

ORIGINS OF THE RCU

The RCU in its present form came into existence after the construction units of the former administrations in the Northern Province (Lebowa, Venda, Transvaal Provincial Administration, and Gazankulu) were amalgamated in 1995. At that juncture the newly formed unit constructed the road P17/1 between Pietersburg and Mankweng. The team was divided into two during 1996 and the second team started to construct road D1468 from Vivo to Indermark. After the completion of road P17/1 in 1997 the two teams reunited to complete the Vivo – Indermark road in 1999. The united construction unit then reconstructed road P134/3 between Roedtan and Immerpan which was completed in December 2000. The RCU is currently engaged in minor road construction works in anticipation of its imminent transfer to the private sector.

The majority of the managerial and supervisory personnel the RCU obtained posts in the maintenance units in the various regions of the Northern Province or left government service following the unit's formation in 1995. The unit presently has no managers and foremen, with the result that senior operators act in these positions. This has necessarily had a pronounced negative impact on the performance of the RCU which is discussed in more detail in a later section of this paper.

APPRAISAL OF THE STRUCTURE AND PERFORMANCE OF THE RCU

The appraisal of the structure and performance of the RCU was achieved by juxtaposing these characteristics with private sector construction industry norms or benchmark performance indicators.

Private Sector Benchmarking

The benchmarking of private sector construction industry norms was done with the assistance of eight leading private sector construction companies. Data was obtained from these companies through a questionnaire distributed to them. The respondents included the five construction companies ultimately shortlisted for participation in the implementation phase of the project, viz. Group 5, Basil Read, Sakhizwe Con Roux, Blacktop Surfacing and Protech (Capricorn Concessionaire), as well as three other construction companies, viz. Wilson Bayly Holmes, Labor Construction and VVB Construction. The respondents therefore included large construction companies such as Group 5, and Basil Read, as well as medium sized operations such as Sakhizwe Con Roux and VVB Construction.

The questionnaire detailed a hypothetical construction project which closely resembled the project recently completed by the RCU between Immerpan and Roedtan, both in terms of scope and nature. The questionnaire requested the following information from the commercial contractors:

- Project resource schedules in respect of both personnel and equipment
- Project cost analyses in respect of input resource costs, materials, overheads and profit
- Project cost analyses in respect of the constituent project construction activities such as mass earthworks, layerworks, drainage and surfacing
- Anticipated project durations and cashflows.

An analysis of the above revealed that had the Roedtan to Immerpan road been constructed by the private sector:

- Construction cost would have amounted to R 15,25 million (2000 Rand value)
- The construction period would have been approximately six months
- The average total site personnel compliment would have been approximately 80 people.

RCU Characteristics

a) Personnel Resources

The total personnel compliment of the RCU is depicted in Table 1. The striking feature of the organisational structure of the RCU is the abundance of semi-skilled and unskilled labour on the one hand, and the paucity of management and supervisory staff on the other. As is evident from Table 1, the semi-skilled and unskilled labour compliment of the RCU is more than four times higher than the required number as determined from the private sector response to the questionnaire.

Whilst a skills deficiency characterises most of the personnel categories, a skills audit revealed the calibre of machine operators to be high. This finding was substantiated by the fact that although cost and operational inefficiencies prevailed within the RCU, the quality of construction work produced by the unit was found to be satisfactory.

Table 1 : RCU Personnel Resources vs Requirements

Personnel Category	RCU		Actual Requirement	
	Number	% of Total	Number	% of Total
Site Management	1	0,6	2	2,5
Quality Control	16	9,1	14	17,5
Supervisory Staff	4	2,3	4	5,0
Machine Operators	24	13,6	18	22,5
Artisans and Skilled Labour	2	1,1	6	7,5
Semi / Unskilled Labour	109	61,9	27	33,5
Support Staff	19	10,8	9	11,3
TOTAL	176	100,0	80	100,0

b) Plant and Equipment Resources

The mechanical condition of the plant and equipment of the RCU was assessed by a specialist fleet management firm, Messrs P&M Fleet Management. The overall condition of the plant and equipment was found to be satisfactory, although all equipment exhibited signs of inadequate routine maintenance. Skills deficiencies amongst mechanical workshop personnel coupled with a lack of management input were found to be the primary contributory factors in this regard.

The mechanical resources of the RCU were found to be adequate to undertake road construction work, however plant utilisation figures were very low. This is ascribable to the fact that all of the unit's plant and equipment resources were permanently on site irrespective of whether a need for the plant existed.

c) Performance and Cost Efficiency

The Roedtan to Immerpan road was constructed by the RCU at a total cost of R 37,7 million over a period of 18 months. The construction process was therefore 2,5 times more costly and the road took three times longer to construct than a similar private sector operation. Table 2 juxtaposes the actual costs incurred by the RCU on the Roedtan to Immerpan project with the likely costs associated with a private sector road construction project.

Table 2 : Analysis of RCU Cost Efficiency

Cost Category	Actual Cost RCU (R)	% Cost	Estimated Cost Private Sector (R)	% Cost	Cost Ratio
1. Plant and equipment	14 800 000	39,3	3 812 500	25,0	3,9
2. Site personnel	10 500 000	27,9	1 814 750	11,9	5,8
3. Materials & subcontractors	5 550 000	14,7	6 679 500	43,8	0,8
4. Transportation of plant	200 000	0,5	91 500	0,6	2,2
5. Establishment	250 000	0,7	305 000	2,0	0,8
6. Accommodation and transport	3 620 000	9,6	320 250	2,1	11,3
7. Maintenance of plant etc	2 100 000	5,6	259 250	1,7	8,1
8. Project Management	-	0,0	610 000	4,0	n/a
9. Other overheads	670 000	1,8	152 500	1,0	4,3
10. Profit	-	0,0	1 189 500	7,8	n/a
TOTALS	37 690 000	100,0	15 250 000	100,0	2,5

The low cost efficiency of the RCU relative to the private sector is ascribable in the main to the following factors:

Plant and equipment costs of the RCU were almost 3,9 times higher than the private sector norm for a project of this nature. This was largely due to low plant utilisation over a protracted period of time, and high repair costs on account of inadequate routine maintenance.

Site personnel costs of the RCU were 5,8 times higher than accepted private sector norms. This phenomenon is ascribable to the oversupply of semi-skilled and unskilled labour who were remunerated at a rate which exceeded industry norms for these categories of personnel by more than 50%. The excessively long construction period merely served to further exacerbate the problem.

The cost of personnel transport and accommodation was 11,3 times higher than the accepted norm. RCU personnel are transported home on a weekly basis to a wide range of destinations around the Northern Province. Common practice in the construction industry is to provide (limited) transport to personnel on a monthly basis.

STAFF BENEFITS AND INTERACTION WITH ORGANISED LABOUR

Various consultations took place with organised labour. In spite of ideological differences with regard to the desirability of outsourcing, fruitful interaction took place with regard to:

- Quantification and protection of staff benefits
- Empowerment of staff by means of training and the creation of opportunities within the new organisation
- Ensuring a smooth transfer by addressing key issues timeously, good communication with the workforce and selection of a suitable private sector company, that is one with the necessary technical and human resource expertise.

With regard to staff benefits the following aspects were addressed:

- Transfer of pension fund benefits
- Quantification of accrued leave and compensation therefore
- Medical aid
- Job security
- Training and development
- Transport to and from the project, and accommodation on site.

Most of these issues have been addressed to a satisfactory level. The most difficult issue was the transfer of pension fund benefits. There is, however, good understanding on national level of the problem. While the various government departments responsible to develop a solution are busy with the process, permission has been obtained as an interim arrangement that staff may remain members of the Government employees pension fund (GEPF) when transferred to a private sector company until the process of transfer has been addressed.

INVITATION OF EXPRESSIONS OF INTEREST FROM THE PRIVATE SECTOR

In accordance with the mandate received from both National Government and Northern Province Government, the NPRA published an invitation for expressions of interest from the private sector in respect of the transfer of the RCU to a commercial road construction organisation, in the national and local media on 22 October 2000. The invitation stated that the transfer of the RCU to the private sector as a going concern would be executed in terms of Section 197 of the Labour Relations Act, and would be packaged with an (unquantified) quantum of guaranteed road construction work. The invitation further stated that the outsourcing process will entail the permanent and in toto absorption of the RCU into the organisation of the successful bidder, including all personnel, plant, equipment, and spares.

The objectives of the call for expressions of interest were:

- To ascertain the competence, experience and financial stability of the organisations which submitted expressions of interest.
- To ascertain under which conditions the private sector would be prepared to absorb the RCU into their organisations.
- To assist the NPRA in determining the scope, nature, and value of construction work which would be offered to the private sector in order to render the absorption of the RCU into their organisations a financially viable proposition

To assist the NPRA in determining an appropriate duration for the outsourcing process.

Proponents were required to provide details of the following in their submissions:

- The required duration of the contract period during which guaranteed road construction work would be offered to a private sector organisation in return for absorbing the RCU into the organisation.
- A fully motivated assessment of the value of such guaranteed road construction work.
- Details of measures to be instituted to enhance the likelihood of continued employment of RCU personnel after the lapsing of the contract period.
- Details of conditions of employment which would apply to the RCU personnel after the lapsing of the contract period.

Details of measures which would be instituted to advance the empowerment of RCU personnel with specific reference to training and career development.

A total of ten submissions were received in accordance with the prescribed format from a broad range of construction companies on the stipulated closing date, viz. 17 November 2000. The procedure adopted to evaluate the submissions received and to compile a shortlist of organisations which would be invited to submit tenders in respect of the implementation phase of the project, is presented hereunder.

EVALUATION OF SUBMISSIONS AND SHORTLISTING OF PROPONENTS

The submissions received from the private sector were evaluated according to a ranking system which awarded points to the proponents in accordance with the degree to which their submissions complied with the requirements of the terms of reference, and according to the innovative nature thereof. The purpose of this evaluation was purely to serve as a screening process in order to identify candidate organisations for shortlisting to participate in the implementation phase of the project. Thus the relative ranking of the submissions had no bearing on the tender process other than to identify which companies would be invited to participate therein.

Following the assessment of submissions from the private sector, five of the proponents whose submissions satisfactorily addressed the requirements contained in the terms of reference were requested to attend an interview to clarify aspects of their respective submissions. The five proponents were Basil Read, Blacktop Holdings, Capricorn Concessionaire (Protech), Group 5, and Sakhizwe - Con Roux. The interviews were conducted by an evaluation panel and were held at the Offices of the Department of Public Works in Pietersburg on 28 November 2000. The responses received from the proponents during the interview sessions confirmed that they were all sufficiently experienced in the field of road construction, were all financially stable, and were all considered capable of absorbing the RCU into their organisations.

It is worthy of mention that certain members of the RCU submitted an expression of interest under the banner of Mvelaphanda Projects. Whilst this submission did not conform to the requirements of the terms of reference, it was decided to facilitate contact between the shortlisted organisations and Mvelaphanda Projects with the view to the possible formation of a joint venture between the parties. It is, however, stressed that no obligation to accommodate or involve Mvelaphanda Projects was placed on the shortlisted companies although clearly the establishment of such a relationship would have distinct benefits with particular reference to the empowerment of RCU personnel members.

RECOMMENDATIONS TO THE NPPWD AND THE NPRA

A recommendation was made to the NPPWD and the NPRA to proceed with the implementation phase of the project to outsource road construction activities in the Northern Province and to transfer the RCU to a private sector organisation.

The recommendation was based on the positive response received from the private sector by way of the expressions of interest, and the overwhelming financial and economic evidence in favour of proceeding with the process which was presented to the NPPWD and NPRA in the Business Case.

The salient features of the recommendations were :

a) Duration of the Contract Period

Although the shortlisted private sector organisations generally identified a five year implementation phase in their expressions of interest, a two year limit was set by the NPPWD and the NPRA due to the reluctance of these two organisations to commit to expenditure beyond this horizon given the vagaries of public sector funding.

Accordingly it was recommended that the successful contractor be awarded preferential pricing privileges in respect of road construction works put out to tender by the NPRA for a period of three years after the completion of the implementation phase of this project (contract period). This preferential pricing privilege will only apply up to a predefined threshold annual value of work of R30 million.

b) Value of Guaranteed Road Construction Work

It was recommended that the value of road construction work to be awarded to a private sector company in return for absorbing the RCU into its organisation be R 72 million exclusive of VAT, which equates to R 36 million per annum for a two year contract period.

The figure of R 72 million was determined from the analysis of the structure and cost efficiency of the RCU relative to the private sector. The benchmark private sector costs were used as the basis for determining the value of the works, with the following value amendments or de facto premiums payable by the government to the private sector :

- A premium of R6,8 million over the two year contract period to cater for the retention of existing conditions of employment of RCU following their transfer to the private sector.
- A premium of R3,5 million over the two year contract period to cater for increased personnel accommodation and transportation costs.
- A premium amounting to 2,5% of project value in respect of training of RCU personnel which will be a condition of contract for the implementation phase. This yields an average per capita training allowance of about R 4 700 during each of the two years of the proposed contract period.
- An annual premium of R 300 000 in respect of increased administration and management costs associated with absorption of the RCU into a private sector organisation.
- An annual premium of R 1,0 million in respect of supplementary management personnel, supervisory staff, and skilled artisans which will be required to augment the RCU personnel.
- A risk premium associated with the transfer of the RCU to the private sector amounting to 10% of annual expenditure.

Apart from the above an allowance was made for a cost concession by the private sector to the government of R 6,7 million to compensate the government for the assessed value of construction plant, equipment, and spares which are to be transferred to the private sector together with the RCU personnel.

c) Nature of Construction Work

As was discussed above, the organisational structure of the RCU is characterised by a four fold over-supply of semi-skilled and unskilled labour. In order to ensure that this sizeable resource is effectively utilised during the construction process it was recommended that wherever possible, labour intensive construction techniques be employed during the construction process. In this regard the possibility of constructing a waterbound macadam road base, stone pitched side drains, and

stone masonry bridges should be actively explored by the design engineers engaged by the NPRA for this project.

CURRENT STATUS OF THE PROJECT

The design of the road works which are to be undertaken during the implementation phase of this pilot project to outsource road construction activities is in progress. Similarly, special conditions of contract are being drafted which pertain to and will regulate the process of transfer of the personnel and equipment from the government to the private sector.

Certain labour relations issues such as the transfer of pension benefits, accrued leave benefits and post retirement medical aid have yet to be finalised. Good progress is being made in this regard. It is anticipated that the five shortlisted construction companies will be invited to submit tenders in respect of the implementation phase before mid-2001.

CONCLUSION

The Northern Province Government committed itself to improved service delivery. As part of the strategy to improve efficiency it was decided to outsource non-core functions, especially those which can be done more efficiently by the private sector. In the case of road construction it was decided to transfer the entire road construction unit, including staff, equipment and spares, to a suitable private sector road construction company. This paper provided an overview of the process followed and the progress achieved to date. All indications are that the process can be completed successfully. In the light of the fact that this project is seen by the DPSA as a pilot project, it is expected that similar projects may follow in future. It is anticipated that the experience gained in the Northern Province may be of value in these cases.

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