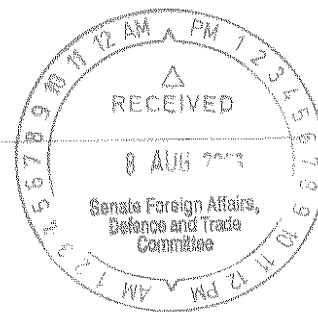


Dermody, Kathleen (SEN)

From: Robin Virant [raven@tadaust.org.au]
Sent: Monday, 7 August 2006 12:50 PM
To: FADT, Committee (SEN)
Subject: RE: Important Addendum To Submission by Robin Virant



Dr Kathleen Dermody,

The recent debacle over the purchase and supply of clothing to military personnel prompts the following:

Defence Materiel Organisation (DMO) tender for submissions to supply services for vessel refits, and/or repairs. They have a propensity to drive the price to an absolute minimum, believing this to be the route to value for money. In fact what happens in the ship building industry is similar to that in the clothing industry. Because there are a lack of qualified tradespeople to perform the work, contractors are forced to pay higher than expected prices for labour in short supply - welders for instance are currently earning in excess of \$30/hour, almost double the old award rate. The contractor must pay the higher price or look elsewhere for labour; this can take two forms, the import of cheap foreign labour, or the use of unqualified labour (both costing less than the base award). This leads to double standards in the wage structure on a work site, that in turn causes friction amongst the labour groups; more importantly this can lead to work on vessels that is not to the required standards, it also begs the question as to how the contractors maintain their ISO accreditation.

DMO should endeavor to be more flexible in the pricing structure of tenders that tend to be of a fixed term/price structure. Instead they could allow for pricing to absorb market forces within the industry groups, and allow a more flexible time scale for completion. This is particularly the case for the larger jobs that may exceed 12 months, and be subject to massive labour supply swings over the term of the project. I have already spoken of the excessive layers of supervision the DMO installs to ensure quality, perhaps some of the largesse spent here could be used more prudently by allowing more flexible tendering options to contractors.

At present the method employed by most contractors to gain a better profit is to submit a Contract Change Proposal (CCP), for work identified as outside the initial scope of works in a tender. This practice is not very well policed by the DMO, and in some cases the actual prices approved exceed the actual cost by more than 50%, a very nice profit margin. Add to this another 15% that a contractor is legally allowed to charge for handling the paperwork for a sub-contractors CCP and it gets even better. I think it is time for DMO employed people who have the experience in the shipyards to manage the projects instead of allowing a contractor to manage a project, who then sub-contracts the work to a ship yard, and in turn the sub-contracting shipyard sub-contracts most of the specialist work required, because they do not have the full time staff.

The process of submitting a CCP and having it approved is generally completed in reasonable time, however there have been cases when it has taken over a year for the required 'specialists' to make a decision, and there have also been occasions where a contractor is given a verbal go-ahead on a CCP so as not to impede the contract process, which in turn allows the contractor to load the CCP with excessive profits. Not efficient, and certainly not value for money.

It is time DMO ran these projects, and cut out the middle layer(s) of management to ensure:

- contractors are held to the contract obligations and provisions (which includes maintaining relevant ISO accreditation),
- contractors are not permitted to use unqualified labour, and
- CCP claims are audited/managed to reflect real costs.

Thank you for allowing this late submission addendum
 Rgds
 Robin Virant

8/08/2006