

MAJOR PROJECTS GUIDANCE FOR LOCAL GOVERNMENT

Overview

Part A: Strategic assessment

Part B1: Business case – developing the business case

Part B2: Business case – procurement options

Part B3: Business case – funding and financing options

Part C: Project development

Part D: Tender process

Part E: Contract management

Part F: Project review

Annexure 1: Reports to the Council

Annexure 2: Sources of power for local government

Annexure 3: Risk checklist

Annexure 4: Gateway review process

Annexure 5: Case studies

Bibliography

Case study	Project	Council/organisation	Delivery model
1	Safer Local Roads	Mornington Peninsula Shire Council (Victoria)	Modified Design, Build, Finance and Maintain (DBFM)
2	Go-Between Bridge	Brisbane City Council (Queensland)	Alliance
3	Community Chef Kitchen Project	A joint venture between 21 Victorian Councils, the Victorian State Government and the Federal Government (Victoria)	Regional collaboration – shareholding in central shared service
4	St George Regional Waste	St George Region of Councils – Hurstville City Council, Kogarah City Council and Rockdale City Council (NSW)	Regional collaboration – single bidding process, separate services contracts

Case Study 1

Mornington Peninsula Shire Council (Victoria), Safer Local Roads Project

Mornington Peninsula Shire Council (the Council) has achieved substantial cost and service benefits through innovative procurement of maintenance, repair and renewal services for its local road network, as well as a minor capital works program. The Council adopted a non-traditional approach to managing local roads, using a modified Design, Build, Finance and Maintain (DBFM) model to achieve estimated savings of an approximately \$64 million over the 15 year contract term.

Background

In 2004 the Council identified a need to manage its local road network more efficiently. For the past 10 years, the Council had employed private contractors to manage the Council's roads. Works were planned and procured largely on an annual basis according to demand. Resealing, major patching, rehabilitation and reconstruction were procured under separate, short-term contracts.

The Council's approach to its local road network was typical of many local Councils. However, the Council found that this approach had a number of downfalls:

- the road network asset condition was in decline
- the approach to road network maintenance, repair and renewal was fragmented
- there was limited opportunity for innovation
- there was little integration between renewal and maintenance activities
- there was a focus on short term planning to meet short term objectives (generally limited to 12 month periods) yet there were long term performance risks
- separate contracts were not cost effective or administratively efficient
- short term contracts led to frequent contract variations.

The project

In response, the Council developed and implemented the Safer Local Roads Project. The Council combined its annual expenditure on repair, rehabilitation and maintenance contracts into a single road management contract for a 15 year period. Project delivery was based on what the Council describes as a partnership between EDI Downer Works and the Council. The contractual arrangements of this partnership took effect as a DBFM arrangement. Unlike a typical DBFM model, the financing component of approximately \$6 million was relatively small compared with the overall project value, and the contractor funded this on its balance sheet as opposed to arranging external financing.

A case study in DBFM

Fast facts:

- principal: Mornington Peninsula Shire Council, Victoria
- project: integrated maintenance, repair, rehabilitation and minor capital works on 1,630 km of local roads
- contract: Single contract with a 15 year term
- delivery model: Design, Build, Finance and Maintain (DBFM) but with a relatively small financing element provided on balance sheet by the contractor
- capital value: \$139m
- anticipated savings: \$64m over 15 years.

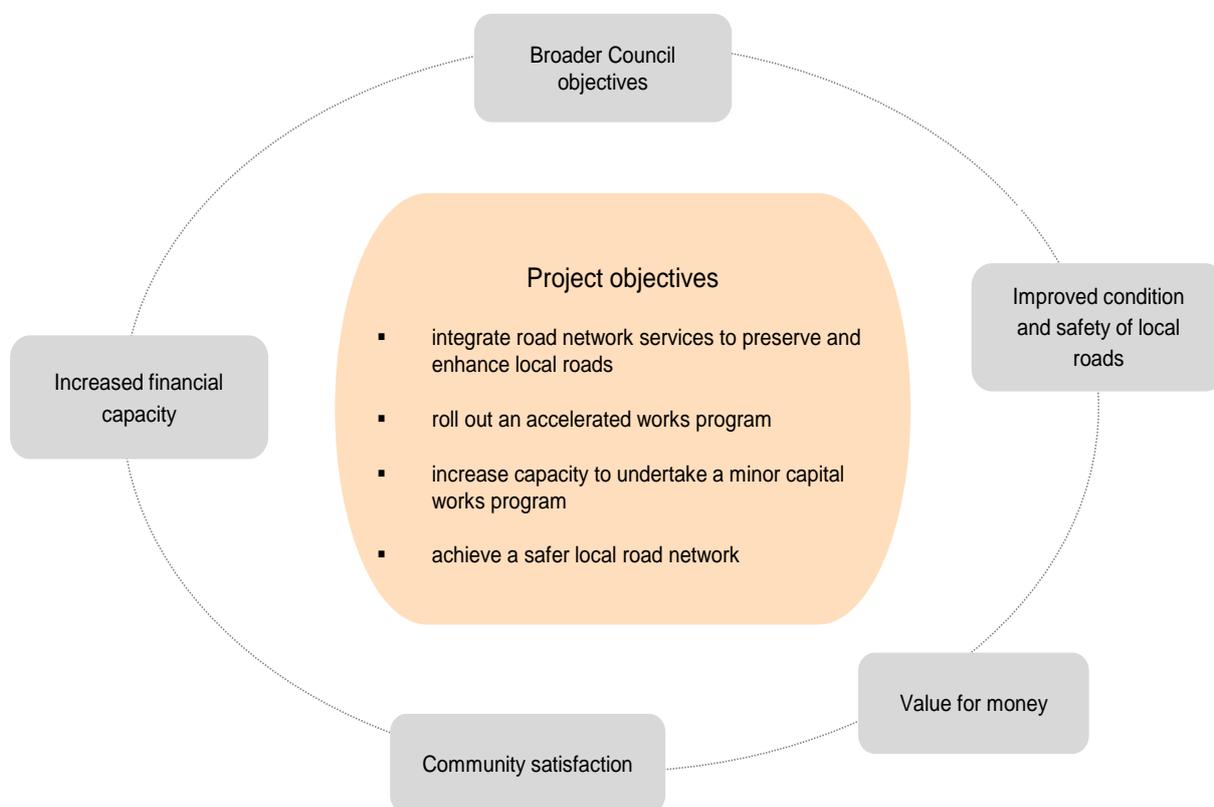
The project included an integrated approach to planning and performing works and services in relation to:

- routine road maintenance
- periodic reseal/rehabilitation for roads, car parks and paths
- maintenance and repair of stormwater pits and open drains
- upgrading works
- minor capital works.

Project objectives

The Safer Local Roads Project was developed to achieve project specific outcomes, which reflect broader Council objectives, as illustrated in Figure 1.

Figure 1: Project objectives



Stakeholder consultation

Before committing to the project, the Council engaged in extensive community consultation, conducting 30 workshops to explore stakeholder interests and concerns about the project. The Council's project team conducted consultations with community members, short-listed tenderers and other stakeholders. The Council invited the Victoria Government, other relevant government agencies and industry representatives to attend workshops and industry briefings. The Council also received input from the community via a survey that was mailed out to residents. Consultants were engaged by

the Council to help facilitate this process and answer stakeholder enquiries. This process occurred prior to finalising the project brief to ensure stakeholder concerns were taken into consideration.

Value for money assessment

The Council needed a way to determine whether delivering the project using a DBFM model would provide a good value for money outcome compared with the existing, traditional procurement of works and services for the local road network. To achieve this, the Council engaged consultants to prepare a Public Sector Comparator (PSC) assessment.

PSC process

A PSC was prepared for the purpose of estimating the net present cost to the Council of continuing with its existing arrangements. This cost was then compared to the net present cost of the arrangement proposed by the preferred tenderer based on the DBFM model. Originally, the PSC was prepared on the basis of an eight year term, which was revised to 15 years to ensure a like-for-like comparison with an alternative bid put forward by the preferred tenderer. Preparation of the PSC entailed:

- financial assessments and modelling (including potential impact of risks), and
- technical/engineering assessments and costings.

Consultants also conducted two workshops with the Council staff to better understand how services were currently being provided, the costs of these current services, and their associated risks.

Assessment

The PSC indicated that the Council's existing procurement strategy for the local road network would be likely to cost \$203 million over a 15 year period. This was compared with the cost to the Council of engaging the preferred tenderer to undertake the same works and services over the same 15 year period on the basis of the DBFM model. The estimated cost of this approach was \$139 million, which represents a saving to the Council of approximately \$64 million over 15 years.

The analysis found that there were a number of advantages of the long term DBFM approach. A single contract allowed the Council to stay within its allocated budget and provided for an additional minor capital works program, including the construction of new roads. This would have been difficult to achieve had the Council continued with its traditional approach. In addition, a long term integrated contract would provide:

- certainty in service delivery duration
- budget certainty (predictable costs to the Council over the 15 year contract term)
- savings in management/administration/plant costs
- economies of scale
- efficiencies in service delivery
- a reduction in long term maintenance costs, and
- greater innovation and added value.

The value for money assessment confirmed that the Council would likely reap substantial savings by undertaking the project, as well as improved service levels.

Expressions of interest

The Council undertook a detailed and comprehensive EOI phase. This phase was observed by an independent probity auditor who reported directly to the CEO and the Council. A project team consisting of senior infrastructure management representatives, and technical and administrative

resource teams, called and evaluated the tenders. Tenderers were required to participate in an interview and a case study.

Case study

Participation in the case study allowed tenderers to demonstrate how they would:

- resource the project
- add value to the project
- meet customer service expectations, and
- undergo the transition phase from existing providers.

One of the objectives of the case study was to determine whether the tenderers fully comprehended the Council's project objectives, including the need for an innovative approach. The process revealed that few tenderers were able to demonstrate such an understanding and some were not inclined to consider alternative delivery options, as their approach was more focused on traditional procurement models.

Evaluation criteria

In addition to pricing criteria, the Council set non-price criteria against which they weighted tenderers' performance. These criteria are set out in Table 1.

Table 1: Non-financial evaluation criteria				
Methodology	Integrated management systems	Community connectedness	Value adding	Transition
Specific task methodology	Asset management	Consultation	Sustainable service enhancements	Approach/program
Staff resources	Quality systems	Public relations/education	Capital investment	Resources
Staff structure/management	Quality assurance	Local employment opportunities	Complexity of management relationships	
Qualifications and skills	OHS	Customer service		
Staff numbers	EMS	Seamless service		
Personal development/training	Risk management			
Resource plan	Information systems/IT			
Depot and communication facilities	Inspections and reporting			
Linkages/integration with other service providers	Customer service			
Continuous improvement				
Innovations				

Each of these factors were taken into account in the tender selection process.

Procurement strategy

The Council opted to proceed with the non-traditional DBFM procurement method and appointed EDI Downer Works as the contractor. Further details of the contractual arrangements are summarised in Table 2.

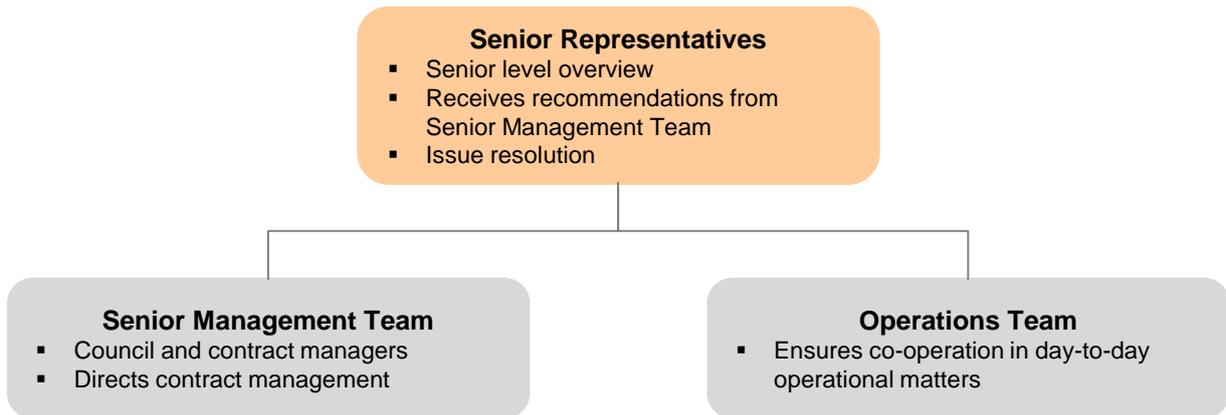
Table 2: Contract summary	
Project	<p>Maintenance and repair of 1,639 km of roads – approximately \$120 million.</p> <p>Accelerated minor capital works program to be completed in the first 4 years.</p> <p>Ongoing monitoring of asset condition and asset maintenance program.</p>
Contract term	15 years.
Output specification	Focus on performance requirements and performance measures.
Maintenance component	Periodic resealing and pavement assessment, maintenance of storm water pipes and drains, routine road maintenance, inspections and condition monitoring, as well as resurfacing preparations and road rehabilitation.
Capital works component	<p>Accelerated minor capital works program to be delivered in the first 4 years of the contract term.</p> <p>The Council has the ability to order additional works up to \$100,000.</p>
Financing	The contractor finances the minor capital works program at a cost of \$6.4 million on balance sheet over the first four years of the contract term. This cost is built into the monthly service charge over the term of the contract.
Payment	<p>The Council pays a smooth monthly service charge to the contractor subject to annual indexation, and adjustment for variations, asset growth and any additional capital works ordered.</p> <p>The monthly service charge is subject to abatement for failure to perform or inadequate performance by the contractor.</p>
Contract management	<p>The contract is managed by the senior representative team, services management team and an operations management team, each comprising representatives of the Council and the contractor.</p> <p>Joint modelling, planning and programming.</p>
Performance reviews	<p>3 yearly Pavement Condition Index (PCI) assessment of all sealed roads to maintain agreed PCI</p> <p>Joint development and ownership of performance measures.</p> <p>Annual performance reviews conducted.</p> <p>Independent auditor engaged to monitor and measure contract performance.</p>

Contract management

Given the length of the contract term, it was important for the Council to actively manage the relationship with the contractor, and to establish clear and effective contract management and communications systems.

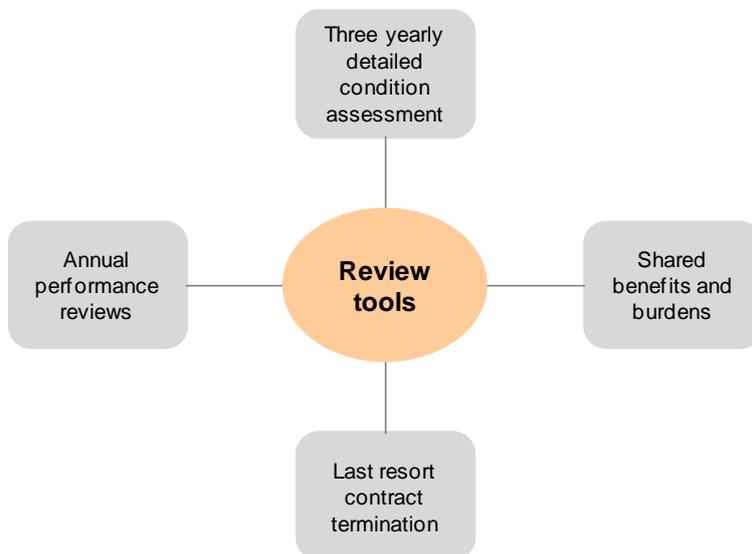
A shared contract management system was implemented. Teams were assembled comprising representatives from both the Council and the contractor as illustrated in Figure 2, and the roles of each team were clearly defined.

Figure 2: Contract management teams



The Council also implemented multi-tiered review mechanisms to ensure that project goals were being met as illustrated in Figure 3.

Figure 3: Review tools



Monitoring performance

Activities specified in the contract were routinely monitored and included:

- direct and improved customer service
- proactive asset inspections (risk management)

- program delivery (was it timely and responsive?)
- grading and road re-sealing programs
- dust suppression and shoulder rehabilitation programs
- path maintenance and rehabilitation programs
- boat ramp dredging, and
- open drain maintenance program.

Also imperative to the Council was community satisfaction with the project. For this reason, the Council also conducted annual customer satisfaction surveys.

Challenges

To meet its objectives, the Council had to overcome a number of key challenges. Early identification of these enabled the Council to devise effective long term solutions through community consultation.

One of the major hurdles for the Council was to commit funds and time to the planning phase of the project. The project took three years to plan and implement. The Council now considers that with the experience gained on the project it could achieve a similar result in a 12 month planning period. Other challenges are summarised in Figure 4.

Figure 4: Addressing challenges

Key challenges in project development	How challenges were addressed
How to manage project risks including economic risk?	External consultants defined, clarified and helped the parties understand the risks Industry representatives were involved in risk management The PSC assessed and measured project risks
How to accurately measure and achieve value for money when there was only one short listed tenderer?	Performed a PSC which found the project would achieve better value for money outcomes compared to the existing contract arrangements
How to accurately predict annual rise and fall in cost commitments?	Smooth monthly fee adjusted by an agreed indexation formula
How to maintain consistent service delivery notwithstanding inevitable changes in the Council and contractor personnel?	Robust monthly meetings scheduled and attended Meetings fine-tuned to redefine roles when staff changed
How could the Council trust the contractor to deliver?	Agreement of performance measures, regular meetings, independent performance monitoring and abatement regime

Outcomes

The project is well into its term, and the Council can see the difference between the previous short term approach to procurement compared with the long term, integrated model selected. The Council has stated that while set up was initially expensive and time consuming, the benefits of this innovative model are already being realised in terms of reduced annual maintenance costs and improved service levels. A comparison of the Council's traditional approach to road procurement and the Safer Local Roads project is set out in Table 3.

Table 3: Comparison between traditional procurement previously used by the Council and the Safer Local Roads project		
	Traditional procurement (Multiple, short term contracts)	Safer Local Roads DBFM (Single, long term contract)
Cost	<p>Low project establishment costs, but high transaction costs of separate contracts</p> <p>The Council had limited ability to procure capital works due to funding constraints</p>	<p>Higher project establishment costs</p> <p>Savings on procurement costs over 15 year term</p> <p>Smooth monthly repayments establishing a level of budget certainty for the Council</p> <p>Accelerated works program to achieve rapid improvements in the local road network, reducing whole of life costs</p>
Services	<p>Services were in decline</p> <p>Service delivery was contingent upon a need for intervention – task-driven and reactive</p> <p>Minimal innovation</p> <p>Resources were constrained</p>	<p>Safer network, improved condition and appearance</p> <p>Road resealing increased</p> <p>48 km (\$1.1 million) of sealing works, 19 km (\$1.9 million) of road rehabilitation, and 2 km (\$0.9 million) of unsealed road constructed</p> <p>Enabled unsealed roads to be sealed (otherwise unaffordable)</p> <p>Fostered innovation through long term relationship</p>
Certainty	<p>Contracts required yearly renewal</p> <p>Frequent contractual variations required</p> <p>Service delivery was determined by funds made available on an annual basis</p>	<p>Renewal gap closed for 15 year period</p> <p>Minimal variations</p> <p>Service levels and standards are known and delivered for the contract term</p> <p>Allows for ramping up of resources when required to respond to specific events/needs (for example the drought breaking)</p>
Long term added value and whole-of-life risk	<p>External contractors appointed annually – approach to maintenance was generally less cost efficient</p> <p>Contractors have little incentive to consider long term maintenance efficiencies and costs</p>	<p>Long term contract incentivises the contractor to achieve quality improvements, cost efficiencies, and whole-of-life costs/risks</p> <p>Improved residual life and integration between renewal and maintenance</p>

Table 3: Comparison between traditional procurement previously used by the Council and the Safer Local Roads project		
	Traditional procurement (Multiple, short term contracts)	Safer Local Roads DBFM (Single, long term contract)
		Close Council-contractor relationship allows some flexibility in service delivery
Performance risk	Performance risk borne by the Council Contractor less likely to carry out preventative maintenance	The bulk of the performance risk is borne by the contractor, with many residual risk being shared Contractor takes more responsibility for quality under a long term contract
Council-contractor relationship	Potentially adversarial relationship: client/provider split relationship Limited knowledge sharing	Long term relationship encourages knowledge transfer and skill retention – a partnership relationship Ongoing onus on the parties to maintain good communication

The Safer Local Roads Project was independently assessed as saving the Council an estimated \$64 million over 15 years. It also delivered a 10 per cent increase in service levels, an accelerated minor capital works program, and unlocked significant value for the Council. This was partly achieved by overcoming procurement inefficiencies and taking advantage of private sector expertise and efficiencies. It was also the result of adopting a long term, integrated approach to the management of the local road network.

The Council considers that the project has met the Council, contractor and community objectives by improving road network quality without increasing the cost to the Council or the community. The Council has achieved a level of budget certainty in road expenditure, as well as increased service levels and improved service consistency. It has also increased its capability to deliver some capital works while reducing reliance on routine maintenance. The Council's innovative approach has resulted in substantial benefits for the Council and the local community including a more streamlined provision of services.

The Council's commitment to innovation in this project has been recognised by two awards, the IPWEA Australia (Vic) Excellence Award for Innovative Practice/Service Delivery and LGPA Award for Excellence – Services Delivery Initiative.

Case Study 2

Brisbane City Council (Queensland), The Go Between Bridge

In 2010, Brisbane City Council successfully delivered a toll bridge connecting Milton and South Brisbane using an alliance model. The project was delivered on time and \$42 million under budget. For this project, the Council established an alliance with four participants to design and construct the bridge. A separate contract was let with another three participants to undertake the design, construction, installation, operation and maintenance of the tolling system. The bridge opened on 5 July 2010. Significant savings against the budget were passed on to road users through reduced tolls.

Background

In 2005, the Council's existing road infrastructure was under pressure. The city had undergone significant population growth, particularly around South Brisbane, West End and Woolloongabba. The Council forecast that this would result in increased travel demand, which would add to the congestion and delays already experienced by Brisbane commuters. There was some concern that Brisbane's traffic and transport issues had been constraining the city's economic, social and physical development.

The project

The Go Between Bridge was procured to help relieve the pressure on Brisbane's existing road network. It involved the construction of a new a 300 metre long, 27 metre wide toll bridge passing over the Brisbane River connecting Milton to South Brisbane. The bridge comprises four traffic lanes, a pedestrian path and a cycle link. The project involved the construction and design of a bridge, road, overpass, retaining walls, landscaping works and environmental works and ground works. As part of the project, a tolling system was also procured including the design, construction, installation, operation and maintenance of the tolling system for an initial period of five years and an option to renew for an additional five year term.

The Go Between Bridge is part of the Council's broader TransApex transport initiative. The TransApex initiative is a long-term plan to improve cross-city travel in Brisbane. It involves a series of infrastructure projects including the Go Between Bridge, the Clem7 Tunnel, Legacy Way and Airport Link projects.

A case study in alliancing

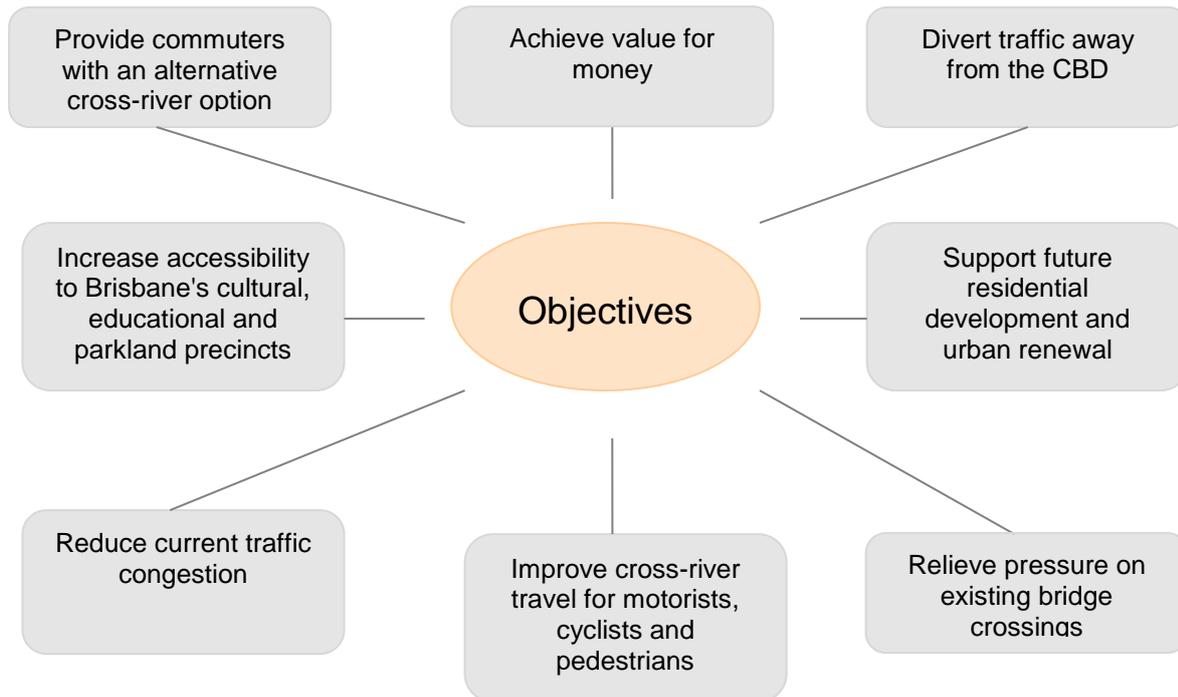
Fast facts:

- principal: Brisbane City Council, Queensland
- project: 300 metre long, 27 metre wide toll-bridge over the Brisbane River, Queensland
- delivery model: alliance for the design and construction of the bridge and a separate contract for the design, construction, installation, operation and maintenance of the bridge tolling system
- capital value: \$328m
- savings: completed \$42m below budget and delivered on time.

Project objectives

Brisbane City Council developed clear objectives for the project early in the project-planning stage. One of the primary objectives was to reduce congestion on the current road network by providing commuters with an alternative cross-river option. The proposed solution would alleviate pressure on existing bridge crossings and divert traffic away from the busy central business district. Ultimately, this would not only improve the transport experiences of commuters, but also increase their accessibility to Brisbane's cultural, educational and parkland precincts. Figure 5 illustrates the Council's key project objectives.

Figure 5: Go Between Bridge project objectives



Business case development

Before accepting tenders, Brisbane City Council undertook an extensive planning process to develop the project. A feasibility study was commissioned in June 2005 which included the preparation of a voluntary impact assessment statement and a business case.

Integrated project team

To develop the business case, an Integrated Project Team (IPT) was created. It comprised representatives from the Council including the Major Infrastructure Projects Office (Risk and Project Management), and external consultants providing expertise in particular areas including:

- financial
- economic assessment
- public communication and consultation
- engineering and risk
- traffic modelling.

Business case objectives

The business case sought to:

- analyse the financial feasibility of the project
- assess the project scope and affordability
- confirm the project's economic desirability
- validate the project's technical viability
- provide further information regarding the delivery options for the project.

Value for money framework

In order to evaluate the affordability of the project, the Council used the Queensland State Government's Value for Money Framework (VfM Framework).

The VfM Framework provides a comprehensive range of procedures designed to evaluate project delivery options for infrastructure projects expected to exceed \$100 million. In particular, the VfM Framework is used to determine the potential for a Public Private Partnership (PPP). The VfM Framework identifies the best value for money outcome for the government and community based on:

- project outputs
- whole-of-life costing
- identification of risks
- allocation of risks to the appropriate party to manage.

Stakeholder consultation process

A community and stakeholder engagement process commenced in July 2005. The Council developed a structured program to deliver relevant information and obtain feedback from the community and stakeholders. This program included a series of information sessions and public displays and invited formal submissions following the release of the draft Impact Assessment Study findings. The program also included a series of key stakeholder session and the use of web content, newspaper advertisements and distributed newsletters.

Market sounding

In order to gauge the level of private sector interest in the project, a market sounding process was conducted.

A market sounding document was prepared and provided to selected market participants who were invited to submit a written response. Interviews were also conducted with some respondents. Participants in the process included key industry players such as Thiess Pty Limited, Macmahon Holdings Limited, John Holland and the RiverCity Consortium.

The market sounding process helped the Council identify the capacity of the private sector to undertake the project and the private sector appetite for taking on the key project risks. The process also identified ways to structure the project's procurement so as to make the project attractive to the private sector (and therefore attract competitive, high quality tenders). The process allowed the Council to identify and consider the barriers to private sector participation.

Procurement strategy

Several models were considered in the development of the procurement strategy. These included alliancing, PPP, Design, Build and Maintain (DBM) and Design, Build, Operate and Maintain (DBOM).

Brisbane City Council was looking for a procurement strategy that would:

- provide value for money for the people of Brisbane
- manage stakeholder interests
- be attractive to industry participants
- deliver the project within the allocated budget
- meet the expected timeframe.

The business case initially recommended that the project be delivered using a DBM model. However, in the process of finalising market engagement an alliance delivery model was ultimately recommended to the Council.

Why wasn't a PPP model used?

The potential for completing the project under a PPP arrangement was evaluated in the business case. This evaluation was carried out using a Public Sector Comparator (PSC) developed for the project. The particular PPP delivery option preferred was the Build, Own, Operate and Transfer (BOOT) model. A BOOT model would have involved a private consortium financing, building, owning and operating the bridge and tolling system for a specified period. At the expiration of this period, the project would be returned to the Council.

Two BOOT options were considered, one where the Council would transfer demand risk to the private sector operator, and an alternative option where the Council would retain the demand risk on the project. The first option was preferred on the basis that demand risk was identified as one of the most significant post construction risks for the project.

The business case ultimately rejected a BOOT procurement strategy for the project. It concluded that the PSC demonstrated that the BOOT model did not provide better value for money outcomes when compared to other models, and that the premium the Council would pay to transfer the demand risk to the private sector party may make the project unaffordable. In addition, the toll road experience in New South Wales had lessened private sector appetite for taking demand risk on toll road projects. For these reasons, the Council excluded the BOOT model from further consideration.

Why alliancing?

The business case identified the following key features of an alliance:

- all parties win or all parties lose (pain share/gain share)
- alignment of commercial interests
- joint project decision making processes
- integrated owner/designer/contractor team
- open book accounting.

These features were perceived to deliver flexibility, aligned behaviour, increased opportunity for innovation and a focus on solutions.

Market sounding revealed that the private sector considered an alliance structure would be more attractive given the size and number of projects that were in market, reduce bid costs, and best allocate project risks. Furthermore, an alliance contract would ensure the early involvement of the contractor.

The initial recommended procurement strategy was a DCM contract. The project business case concluded that the overall size of the project and expected toll revenue could not support a traditional toll road PPP given the relatively small size of project and the likely high transaction costs. It also suggested that the project and construction risk profile would be consistent with a DCM model. Ultimately, the market sounding confirmed little market appetite for DCM and subsequently the alliance procurement strategy was adopted.

The alliancing structure

The project was split into two key contracts. The first was for the design and construction of the bridge under an alliance structure. The alliance consisted of Brisbane City Council, Seymour Whyte, Macmahon Constructions and Bouygues Travaux Publics (construction), and Hyder Consulting (design).

A separate contract was established for the operation and maintenance of the tolling system consisted of Brisbane City Council, Leighton Contractors, RiverCity Motorway Group and Kapsch TrafficCom AB. The second contract required an experienced tolling operator and provider to meet business requirements.

The alliance structure chosen was a 'pure alliance' or 'true alliance', with a single Target Outturn Cost (TOC). However, the initial stage included a commercial returnable that included contractor margins and estimated construction cost to assist Council in project planning and short listing process.

After the initial short listing and subsequent evaluation phases, the alliance partner chosen by Council worked with Council to fully develop the design and the target outturn cost.

The project concept design required significant development before the TOC could be developed and Council was satisfied that it could achieve a competitive outcome with a single participant with the independent cost review process that was established for this phase. This process allowed approach allowed unresolved design and construction issues to be resolved as part of the TOC process.

Following the procurement phase, the alliance agreement was executed in June 2007. The TOC was accepted and approved by Council in April 2008. The bridge opened to traffic in July 2010.

Obstacles

Community concerns

The consultation process uncovered some common community concerns about the project, including:

- the effect of the bridge on other transport modes
- pedestrian safety
- road/building access
- increased noise
- increased air pollution

- traffic speed and volumes
- general traffic movements.

To address some of these concerns, the original design was modified to reduce the traffic impacts during construction, vegetation disturbance and adverse effects on the river water quality as well as minimise direct impact on neighbouring properties. A speed limit of 60 km per hour was also implemented.

While the Council accepted the community's concerns regarding noise and air pollution, investigation into these matters revealed that any increase in noise levels would be negligible, and air quality was predicted to remain below the relevant air quality standards.

In order to address perceived community concerns, Council agreed to monitoring regime to ensure impacts were mitigated or appropriately managed. These of concerns related to matter outside the control of the alliance parties and were therefore retain and managed by Council. As a result there was limited impact on the final alliance cost.

State approval to toll

The Council designed the Go Between Bridge as a toll-road so that revenue from tolls could contribute to the ongoing funding of the project. This created an additional hurdle because, in accordance with legislation, the Council was required to obtain approval to toll from the Queensland State Government. The approval was granted in due course.

Council sought and received approval to develop and operate the bridge as a tollway before entering into the alliance agreement to deliver the project. This process was run concurrently with the decision to proceed with project following the Impact Assessment Study and business case.

Tendering process

EOI

Advertisements were placed in the Australian and Courier Mail newspapers on 16 December 2006 inviting submission of EOI for a design and construction alliance for the project. Responses were required by 25 January 2007. Council received EOI's from two consortiums. Both consortiums were considered capable of delivering the project and were shortlisted for bid phase.

Bids

The objective of the bid phase was to:

- select a contractor and team members with appropriate behaviours to work within an integrated Council and Contractor team
- maintain commercial competition during the procurement process that does not require excessive financial or resource commitment from proponents
- aim to develop a TOC within project budget allocated by the Council
- seek a preferred contractor with the potential for exceptional performance and innovation.

The Council issued the Request for Tender document in February 2007 to the two shortlisted tenderers, requiring two sets on deliverables on 16 March 2007 and 4 May 2007 respectively. The process followed a typical alliance process with addition of a reference design price submission and financial audit process. The submitted prices formed a reference for the development of the final TOC with the preferred tenderer.

The Council decided that bid costs would not be reimbursed as part of the process unless the Council decided not to proceed with the project.

Contractor selection

The preferred alliance contractor was based on the overall assessment that concluded that:

- both proponents demonstrated a capability to deliver the project
- the preferred proponent ranks highest against all criteria, and overall
- the preferred proponent will secure the most advantageous arrangement for the Council
- the preferred proponent provided initial views on possible project innovations, and that could be further considered during the project development phase.
- The technical competence of the preferred tenderer was demonstrated through recent and relevant experience on bridges of this type.

With respect to the maintenance and operation of the tolling system, the Council decided that the alliance should include a participant with experience in operating a tolling system in Brisbane. It was thought this would be a more cost effective approach. It was for this reason that the RiverCity Motorway Group was selected as the organisation had experience in operating the tolling system on the Clem7 Tunnel.

Outcomes

The Go Between Bridge opened on 5 July 2010 and is now fully operational. Although the project was originally budgeted at \$370 million, it was completed for \$328 million. This \$42 million saving against the budget has been passed on to road users, through reduced tolls.

As part of the Council's TransApex initiative, the Go Between Bridge has helped to address Brisbane's long term transport needs. It has reduced congestion and improved travel times by up to 15 minutes during peak periods. Brisbane City Council estimates the Go Between Bridge has offered relief to other bridge crossings and the wider Brisbane road network. Furthermore, the bridge has increased accessibility for motorists, pedestrians and cyclists to Brisbane's popular recreational and cultural precincts.

The alliance delivery model delivered a number of benefits through the delivery phase without exposure to commercial claims. The alliance was able to overcome a number of significant complex construction issues that might have otherwise given rise to a significant risk premium or commercial claims through a traditional DBM model.

The flexibility of the alliance model also allowed the Council to deliver additional scope of works within the original budget on an open book basis, and allowed construct impacts to managed effectively with limited time or cost impacts.

Case Study 3

Community Chef Kitchen

A joint venture between 21 Victorian Councils, with support from the Victorian State Government and the Federal Government, has successfully established a cost effective and high quality service, akin to 'meals on wheels', for the provision of nutritious meals to older adults and others that are nutritionally at risk. Meals are produced in a \$24 million state-of-the-art food production facility, which incorporates an array of sustainable design concepts.

Background

The delivery of 'meals on wheels' began in South Melbourne in 1952 with volunteers delivering meals by bicycle. Since its inception, the number of meals delivered has increased to 4.4 million per annum. In addition, food safety standards have become more prescriptive, dietary guidelines have been improved and kitchens have changed to offer more variety.

In Victoria, local government is responsible for providing this service to members of the community who, due to frailty, disability or illness are unable to provide a meal for themselves.

In order to meet the increase in demand for the service over the years, Councils have either needed to upgrade their kitchens or engage the private sector to provide the service. In 1999, Councils began sharing their concerns about the service and questioned if it was core business. Concerns were raised about the risk exposure and whether Councils had the capital to continue to upgrade their kitchens to meet food safety standards and new production methods. Many Councils were running their own kitchens and managing their own staff. Councils began to question whether the operation of individual programs was the best use of their resources and whether the service might be better managed by the private sector.

However, a 2004 survey identified that there were limited private sector food service providers, making it difficult for Councils to obtain value for money when tendering for private sector provision of the service. Councils also had concerns about the ability of private sector providers to meet diverse needs and provide a variety of menu choices including specialist meals that were of a high standard.

The first Council to give voice to the idea of a collaboratively run meals on wheels service was Hobsons Bay City Council. By 2005, 15 Councils had pooled their resources to fund a feasibility study for a 'Local Government Regional Food Production Facility'. The study concluded that the project was viable. By 2007, the number of interested Councils had increased to 20.

A case study in regional collaboration

Fast facts:

- principals: Commonwealth Government, Victorian State Government, Banyule City Council, Bayside City Council, Boroondara City Council, Brimbank City Council, City of Casey, City of Greater Dandenong, City of Darebin, City of Greater Geelong, Hobsons Bay City Council, Hume City Council, Macedon Shire Council, Manningham City Council, City of Maribyrnong, Melton Shire Council, City of Monash, City of Moonee Valley, Moreland City Council, City of Port Philip, City of Stonington, Surf Coast Shire Council and City of Yarra
- project: provision of delivered meals from a purpose built, state-of-the-art food production facility designed by renowned French Architect Francois Tesniere of 3bornes Architects, Paris
- delivery model: joint venture – partnership between three levels of government
- construction: Vaughan Constructions Pty Ltd
- capital value: \$24m.

The project

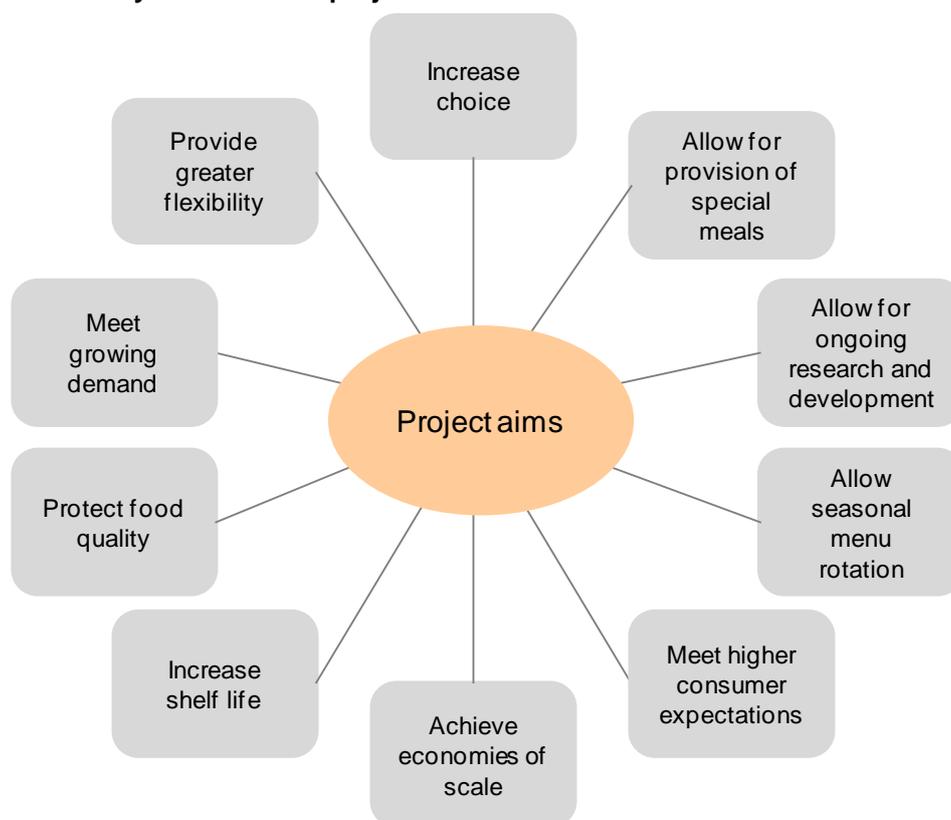
The Community Chef kitchen is a purpose built, state-of-the-art food production facility, located in Altona, Victoria servicing 21 shareholder Councils, residential aged care facilities and hospitals. Food security and the nutritional wellbeing of customers are of primary interest to the organisation. Food recipes are heavily influenced by an appreciation of the need to provide nutritious, varied, attractive, culturally sensitive and affordable food to members of the community who are nutritionally at risk. Once cooked, the meals are sent to a delivery point and each Council organises distribution of the meals to residents. The food produced by the Community Chef kitchen is distributed to those Council residents who, either due to age, disability or any other reason are unable to cook for themselves.

The Community Chef kitchen commenced production on 1 December 2010. It is currently producing in excess of 15,000 meal components per day. This figure represents a 75 per cent increase in production since the commencement of the program.

Project objectives

The Community Chef initiative was born out of the realisation that food production services could be provided more effectively if Councils pooled their resources. By drawing on their individual experiences running their own meals on wheels programs, it was hoped that the Councils would be able to develop a more effective collaborative approach for the delivery of the service. Ultimately, this would not only improve the cost effectiveness and profitability of the service, but it would also enhance the quality of the service experienced by customers. Figure 6 illustrates the key objectives of the Community Chef project.

Figure 6: Community Chef Kitchen project aims



It is also hoped that by providing nutritionally at risk residents with healthy and nutritional meal options, the community will benefit from indirect social dividends such as increased interaction with elderly and disabled residents and reduced hospital admissions.

The challenges of regional collaboration

During the project development stage, there were many challenges to be overcome. These included:

- maintaining the commitment of a large number of Councils with differing requirements and local priorities
- managing communication and maintaining a dialogue between the Councils
- agreeing terms on a single shareholder agreement and meal supply contract
- minimising future contract management issues arising from the large number of Councils
- managing employee and tax issues.

Each of these challenges needed to be addressed, but with so many Councils involved in the project, project implementation was not expected to occur quickly. However, thanks to committed and courageous efforts by the management team of Community Chef, in pursuing and advocating the need for consultation between the Councils throughout the project, member Councils have embraced the collaborative process and the business opportunities that arose.

With such a broad demographic of customers across a range of geographic areas in both metropolitan and regional areas, it was also thought that achieving a business delivery model that appealed to a majority of customers might prove difficult. To address this, the program was developed using regular consultation and perception testing with recipients of the service. Regular monitoring, through easily generated sample reports, has also meant that council officers have been able to keep stakeholders abreast on any trends affecting delivery of the service. Meal recipients are regularly consulted on their perception of the services as part of furthering product research and improving the program.

Project structuring

The structuring of the project also presented considerable challenges. Councils were given differing advice in regards to which commercial vehicle was best suited to the operation of the project. One set of legal advisers thought the program could be best managed by way of an unincorporated partnership. However, the Councils ultimately elected to operate the program under the company structure. By registering the service as a company, Councils could ensure that risks and liabilities associated with the project could be quarantined in the company vehicle.

Today, the business is structured as two companies. The holding company, Regional Kitchen Pty Ltd, owns the land, building and the plant. It leases the facilities to RFK Pty Ltd trading as Community Chef, which employs the staff and produces the meals. Both companies are owned by local government customers, and only local governments can be shareholders.

Governance

From a governance perspective, one of the issues faced by the Councils was deciding how the shareholding arrangement was to be structured. A Shareholder Agreement and Constitution define the operation of both companies, and a separate agreement specifies meal supply arrangements.

Each shareholder Council nominates representatives to vote on key decisions concerning the two companies. Similarly, a separate board governs each company. An independent human resources consultant undertakes the board selection process for each company and appointments are based on merit.

Each board has independent directors as well as directors connected to local government. The boards are small, five and six members, respectively. The independent board positions are remunerated. An

Audit and Risk Management Committee provides support to the Boards, ensuring the best interests of all stakeholders are maintained.

Shareholders are also represented on an Advisory Group, which considers all aspects of Community Chef's development and provides strategic advice to the board. The chair, appointed by the board, attends board meetings as required and reports on matters raised by the shareholders. An Operations Group shares information about service related matters and contributes to practical improvements from the kitchen to the recipient's door.

A business plan is presented to shareholders in May each year and the board is required to operate the business within the parameters of that plan in the following financial year. Should the project cease to operate, there are provisions for the short term and long term repayment of grants. All the assets, net of repayment of financial obligations to both lending institutions and government, would ultimately go back to the Regional Kitchen Shareholder Councils.

The opportunity for local governments to develop the business to meet their own requirements and the needs of the meal recipients is one of the great strengths of the business model. This has been facilitated by members' willingness to work collaboratively and because it has robust governance arrangements including a strong, independent and skills based board removed from local politics.

Procurement strategy

The facility was constructed using the design and construct delivery method. Although this method of procurement is not particularly innovative, it is the successful collaboration of such a large group of Councils that makes this project notable. In pooling their knowledge and resources, the Council participants have benefitted from shared risk and cost, as well as economies of scale in the development of the central kitchen asset and the service delivery.

While the entire 14 original member Councils managed the set-up of the program collectively, in the early stages of the project's implementation Hobsons Bay City Council, as the main initiator of the project, provided office and food preparation facilities. The Council also seconded staff during the period when the facility was being constructed. When construction was completed, Community Chef was able to engage its own staff.

Broader project benefits

A number of environmentally sustainable concepts have been incorporated into the construction of the facility in addition to the processes for producing the meals. These include:

- using of e-water in place of chemicals for hand washing and in-process cleaning
- capturing water and heat
- reducing energy use
- minimising water usage/wastage
- reducing in process ingredient and production consumables wastage
- adopting new pasteurising process that protects food quality and increases shelf life and food safety.

The project has also delivered a number of broader benefits to the Councils, and the local and wider community. Some of these are presented in Table 4.

Table 4: Broader project benefits

Research	<p>Research undertaken through strong partnerships with Community Chef Councils, the CSIRO and Victoria University (VU) has enabled the participating Councils to better understand and meet the needs of their meal recipients in the long term.</p> <p>The CSIRO is working with Community Chef to develop meals that are more nutritionally dense by investigating the innovative use of combining natural ingredients to improve nutritional intake. This has been recognised as a project of national significance.</p> <p>VU Masters' dietetic students have just completed a yearlong research piece on the nutritional intake of meal recipients at four Council sites. Findings fed into service development for both customers and Community Chef. The relationship with VU is ongoing and the next piece of research is currently being scoped.</p>
Employment practices	<p>Employment practices at Community Chef include entry level opportunities and career pathways as well as support for people who are disadvantaged in the labour market.</p>
Procurement policies and practice	<p>Procurement policies are developed to take into account wider social and environmental benefits and longer term sustainability and food security. Through Community Chef, Councils actively contribute to research, advocacy, partnerships and experimentation.</p> <p>For example, as part of the commitment to social enterprise, carrots and brown onions are supplied by Karkana Support Services Inc (Wimmera Uniting Care). This is an organisation in Horsham that employs people with a disability to process and supply vegetables. Karkana meets all of Community Chef's stringent quality specifications and is HACCP accredited.</p>
Supporting related initiatives	<p>Community Chef also donates surplus meals at no cost to not-for-profit community food programs including the Foodbank and Second Bite.</p>

The future of the project

Community Chef has continued to refine its processes and product and service offering. This will attract further interest from Councils seeking to take advantage of the benefits of becoming shareholders. Having successfully emerged from the start-up phase, the organisation estimates that it is currently operating at one third of its projected production capacity.

The flexibility in the supply of product and service also means that the company will continue to play an important role post the transition of Health and Community Care funding responsibility from the State Government to the Federal Government from July 2015 onwards.

Over the next 10 years, both companies will be profitable. Part of the annual profits will be used as a social dividend to support other community based programs, new local government initiatives related to aged care or research and development. The profits could also be used to reduce the meal price, upgrade the facility or to be paid as dividends to shareholders.

Spurred on by the success of the program within the communities of member Councils over the past two years, a number of other Councils across Victoria who are considering joining the program in 2014 have undertaken a due diligence process as part of their deliberations. A particular focus in recent times has involved looking at ways to further expand into regional Victoria. According to Community Chef's CEO, Joe Ciccarone, the company is facilitating discussions in regional Victoria to develop shared services distribution hubs which consider the social, economic and environmental sustainability

challenges facing regional communities. It is anticipated that the first hub in northern Victoria should be operational in the next 24 months.

The quality, taste, cultural diversity and unparalleled nutrition of the Community Chef product offering lends itself to being consumed by a demographic greater than the aged and disabled. There is the opportunity for shareholder councils to integrate the supply of meals into their programs aligned with the 'healthy together' policy initiatives at a State and Federal level.

The vision for the regional distribution centres is to not only to have a warehouse and cool storage for the meal deliveries program, but to include the provision of space for social service organisations such as Foodbank and to provide the opportunity for local producers to have access to the Melbourne metropolitan market through the back loading of the delivery trucks that transport the meals to the centres. This type of enterprise delivers on the basis of triple bottom line performance, which combines social, environmental and financial factors.

Gabriel Gate, the Community Chef Patron has provided advice on meal choice and menus, and is a committed supporter of the project. On the Community Chef website he has said:

Community Chef is about providing good quality, nutritious meals to people who require assistance due to frailty or disability. As a food lover, I think there can be no greater way to demonstrate our care for those needing community support. The meals menu will provide diversity and be both healthy and culturally relevant. It is an incredible project.¹

¹ Community Chef website: www.communitychef.com.au

Case Study 4

St George Region of Councils (NSW) Waste Services Project

A collaboration between Hurstville City Council, Kogarah City Council and Rockdale City Council (St George Region of Councils) is delivering significant cost and service benefits through innovative procurement of waste services. The Councils adopted an alternative approach to the provision of waste services by collaborating together on a strategic 'service delivery' alliance model. The Councils anticipate achieving savings of more than \$46 million over 10 years², as well as service improvements and environmental benefits.

Identifying the need

In 2000, over six million tonnes of waste was sent to landfill in Sydney alone. The State Government's growing concern that this practice was unsustainable culminated in the introduction of the *Waste Avoidance and Resource Recovery (WARR) Act 2001* (NSW) and the WARR Strategy 2003.

The WARR legislation and strategy aimed to address some of the problems associated with landfill by promoting waste avoidance and resource recovery – reusing and recycling waste. It also encouraged the use of renewable and recoverable materials.

Of particular relevance to the Councils, the WARR Strategy placed stretch targets on local government to increase diversion from landfill from 26 per cent to 66 per cent of total domestic waste stream by 2014.

In the context of these new regulatory requirements, the St George Region of Councils identified the need to make significant improvements in waste collection and recovery. They had already experienced some success in regional collaboration as part of the Southern Sydney Regional Organisation of Councils (SSROC).³ They had agreed to jointly participate in a program to explore the benefits of a regional contract for the provision of waste services and to meet the new regulatory targets.

The Councils saw that regional collaboration in the waste collection had the potential to provide benefits in respect of innovative alternate technologies, which may provide enhanced recovery services that may assist them to meet the 66 per cent target.⁴

A case study in alliancing & regional collaboration

Fast facts:

- principals: St George Region of Councils consisting of Hurstville City Council, Kogarah City Council and Rockdale City Council, New South Wales
- project: waste collection and recovery services
- contract: collective project development and tendering process with separate service contracts for each council
- contractor: single contractor appointed for a 8-10 year terms
- delivery model: strategic service delivery alliance
- capital value: \$100m plus
- anticipated savings: \$46m over 10 years.

² Cr Vince Badalanti, Mayor, *Hurstville Council Comment*, Issue 31 (September 2007) p 1.

³ The SSROC is a group of 11 Councils in the southern region of Sydney which formed in 1986. The member Councils had successfully entered into contractual arrangements for regional recycling and waste disposal services and had seen the benefits flowing from that collaboration. See Southern Sydney Regional Organisation of Councils (SSROC), *Strategic Alliance Network, Resource Sharing Models* (undated).

⁴ Application for Authorisation from the ACCC, Proposal to Tender for Waste Collection Services, St George (Sydney) Region of Councils, Attachment 1 (17 October 2006) p 3-4.

The project

The St George region covers an area of 74 square kilometres, with a combined population of approximately 229,350 people and a total number of approximately 84,129 residential properties.⁵

The project involved an integrated approach to the provision of waste collection and recovery services over the St George region, in relation to:

- all domestic waste, recyclables, garden organics and clean ups
- commercial waste, recyclables and garden organics from participating businesses
- illegally dumped waste
- public place waste and litter bins.

A noteworthy aspect of this project is that although the St George Region of Councils jointly developed the project and conducted a joint tender process, each Council entered into a separate services contract with the successful tenderer. The Councils refer to this as a strategic service delivery alliance.

The service contracts commenced in Rockdale in 2008, Kogarah in 2009 and Hurstville in 2010. All three contracts expire in 2018, but include an option to extend the contract by an additional two years.

Project objectives

The project aimed to achieve a number of practical improvements, which are summarised in Table 5.

Table 5: Project objectives⁶	
Area	Objectives
Collection efficiencies	<ul style="list-style-type: none"> ▪ streamline collection systems and patterns ▪ establish consistent starting times ▪ maximise fleet efficiencies and reduce the total number of collection vehicles ▪ increase ability to introduce new services (for example, e-waste programs) by combining the resources of the three Councils ▪ optimise service arrangements to suit the needs of specific developments.
Education	<ul style="list-style-type: none"> ▪ reduce costs through economies of scale by running joint education programs and initiatives ▪ provide more thorough and consistent education programs to the region's schools by combining the resources of the three Councils.
Bins	<ul style="list-style-type: none"> ▪ reduce costs in bin procurement through increased purchasing power ▪ achieve consistent bin type and size over the region ▪ offer a number of bin alternatives due to the increase in service levels, particularly in relation to specific types of developments.

⁵ n2, p 4-6.

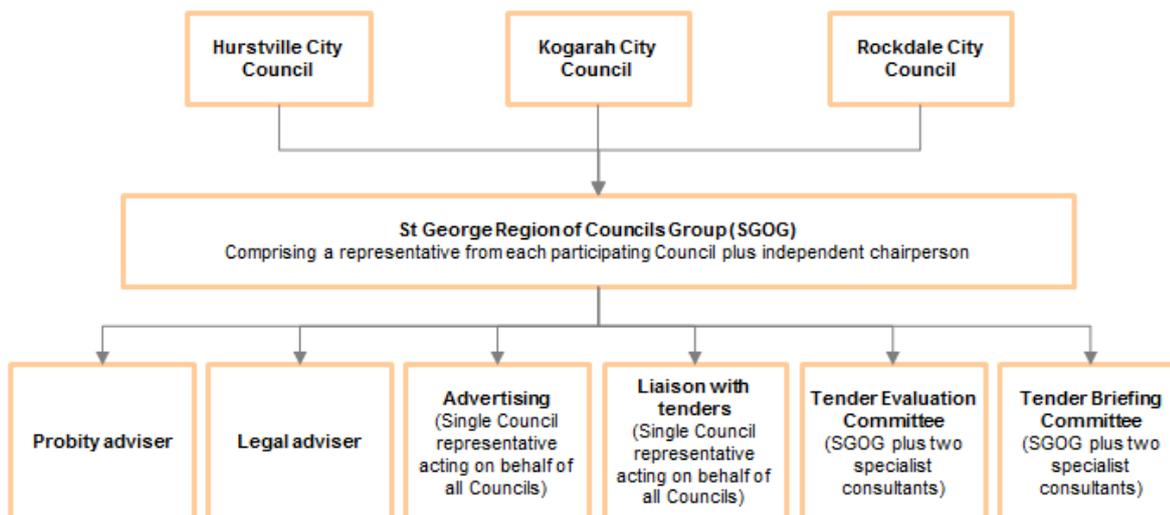
⁶ Objectives taken from ACCC Application, n2, p 10.

Table 5: Project objectives⁶

Area	Objectives
Commercial services	<ul style="list-style-type: none"> ▪ streamline collection systems and patterns ▪ increase market share by combining the resources of all three Councils ▪ provide commercial recycling services at more competitive rates through economies of scale gained by appointing a single service provider ▪ reduce litter and illegal dumping by increasing the number of services and service levels.
Waste volumes	<ul style="list-style-type: none"> ▪ reduce waste disposal costs due to product demand and increased tonnages ▪ increase market size for the processing of waste products ▪ Maximise the potential to increase diversion from landfill.

Building the team

Through the St George Region of Councils Group (SGOG), the Councils established a procurement team comprising senior staff from the three participating Councils and external advisers appointed for the project. Figure 7 provides an overview.

Figure 7: Procurement team

Project development

The project involved a 14 month joint planning period. When developing the project, the St George Region of Councils examined what had worked best for each Council in their individual collection contracts. They then examined the successes and failures of other Councils that had used or trialed the organics collection and processing services, which were considered for this project, as well as other waste technologies. The Councils undertook a pilot study in this connection.

The collaboration of the three Councils in developing the project is not the only innovation of the procurement process. The delivery model itself is innovative. The Councils opted to develop the

project as a non-traditional alliance. The St George Region of Councils determined that a non-traditional alliance procurement methodology would provide flexibility to vary the waste services, as required, without substantial administrative costs. It would also allow them to capitalise on potential efficiencies and corresponding reductions in prices over the term of the contract.

A challenge faced by the Councils in jointly developing the project was that they each had existing contracts in place for waste services, which expired at different times over a three year period. To overcome this obstacle, the Councils decided to structure the project such that each Council would enter into a separate service contract for waste services, each commencing on the date required by the relevant Council. The contract for Rockdale City Council would commence in 2008, Kogarah City Council in 2009 and Hurstville City Council in 2010.

The separate contract structure had the advantage of accommodating staggered commencement dates. It also allowed each Council to be responsible for managing its individual contract and, if necessary, specify different service options to provide additional flexibility. However, each contract included the same general specification (to allow for an integrated approach to the delivery of the services across the municipal boundaries in the most efficient manner) and common terms and conditions were used for each contract.

ACCC authorisation

A potential obstacle for the project was that the collaboration of the Councils in jointly tendering and contracting for the services required authorisation from the Australia Competition and Consumer Commission (ACCC).

This process can be lengthy and the Councils had to ensure that sufficient time was allowed to facilitate the process. The ACCC granted the authorisation until 30 June 2018 on the basis that it was, 'satisfied that the collective arrangements are likely to generate several public benefits, including collection efficiencies and cost savings, improved service delivery and better education programs for residents in the relevant municipalities'.⁷

The factors weighing in favour of granting the authorisation were that:

- the St George Region of Councils comprised only three Councils out of the 38 Sydney metropolitan Councils
- the arrangements may increase competition by attracting a larger pool of industry participants (this included the scale of the project as well as the length of the contract term)
- at the end of the proposed 10 year contract term, the Councils intended to conduct another tender process for the appointment of the service provider.⁸

Tender process and contract award

The St George Region of Councils undertook a detailed and comprehensive tender process. It was supervised by an independent probity adviser, who reported directly to the SGOG.

Tenderers were required to submit a single tender, with common tender pricing, that would apply to each of the service contracts for the three Councils.

The procurement team evaluated tenders on a range of criteria, including:

- improvement and innovation strategies
- environmental management and performance proposals

⁷ Graeme Samuel, *ACCC grants authorisation to St George Region Councils for collective waste regarding service* at: www.accc.gov.au/content/index.phtml/itemid/783294

⁸ See n7.

- ecologically sustainable development proposals
- community customer service experience and capacity
- education experience and capacity
- best value (the most cost effective offer determined by considering all price and non-price factors relevant to the proposed Services Contract).

The successful tenderer, WSN Environmental Solutions Pty Limited, was appointed by each of the Councils under their respective waste service contracts.

The contractual arrangements are summarised in Table 6.

Table 6: Contract summary	
Issue	Description
Scope	Provision of waste collection and recycling services
Procurement model	Strategic services delivery alliance contract
Term	8-10 years depending on the Council as a result of staged commencement. There is a common end of term 2018, with a 2 year option to renew
Price	\$100 million plus
Payment	Payment is calculated on the basis of direct costs in accordance with the pre-agreed rates set out in a schedule of rates plus a margin on direct costs (as adjusted for changes, provisional sums, acceleration and rise and fall)
Variations	Both parties can propose variations to the contract. Variations are assessed under the contract and, if costs savings result, the savings may be shared with the contractor in certain circumstances
Performance	A performance process is included in the general specification, and a failure to meet the performance requirements may result in abatements

Outcomes

At the time of award, the alliance was the largest financial venture ever embarked upon by the St George Region of Councils, and the fifth largest waste management contract in Australia.

The St George Region of Councils' commitment to excellence in project innovation, evolution and performance has been recognised by Alliancing Contracting Excellence Summit (2008). The St George Regional Waste Project received a Commemorative Award for the initiative and was one of only two Australian finalists for top honours that year.⁹

⁹ Rockdale City Council Media Release, *St George Waste Alliance Australia's Best* (6 June 2008).

A spokesperson for Councils said:

Delivering innovative services through Alliancing, means exploring and pooling ideas to achieve better use of resources for improved services as well as identifying value-added business opportunities. To date these outcomes have achieved the very best social and economic benefits for our communities.¹⁰

¹⁰ See n4.