

**Queensland Reconstruction Authority**

**2010/11 Queensland flood and cyclone disaster**

**Value for Money Strategy**

## EXECUTIVE SUMMARY

The Queensland Reconstruction Authority (the Authority) has been established as a statutory authority for the efficient and effective coordination of reconstruction effort, across the state, of the damage caused by the weather events of Summer 2010-11.

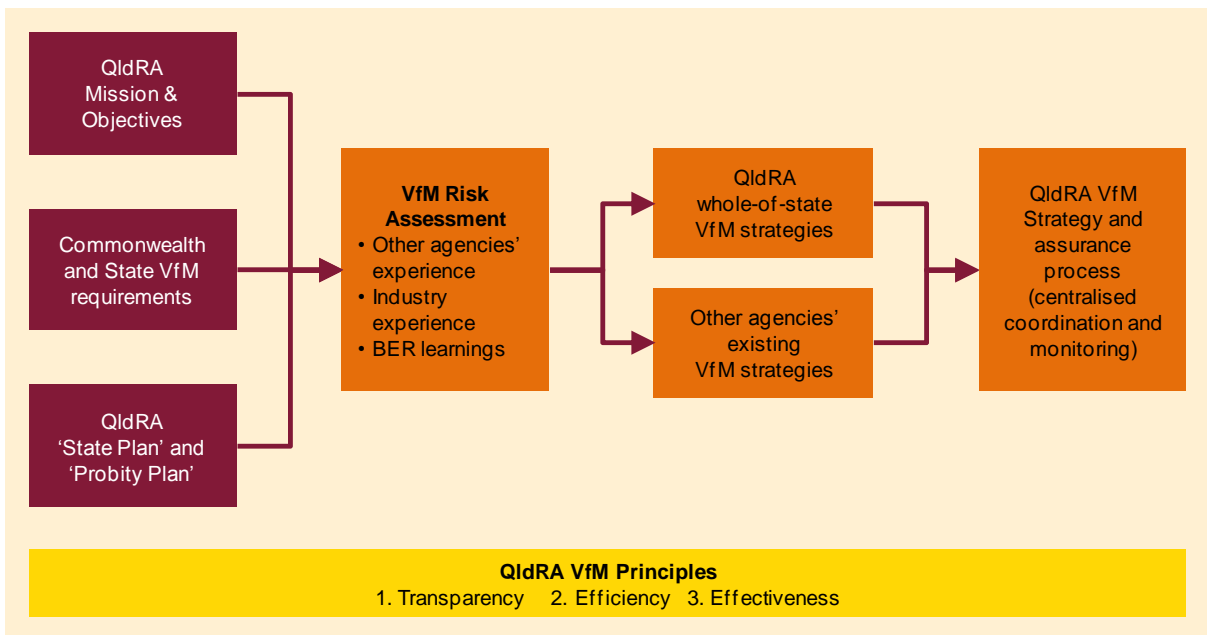
The Authority must operate in the extraordinary context of the disaster that covers all of Queensland and where speed of reconstruction will often be paramount. This objective must be balanced with the Authority’s role in assuring that the monies managed by it result in optimal Value for Money (VfM) outcomes and that this can be demonstrated to key stakeholders. The Authority will also provide overarching coordination and monitoring of the reconstruction effort to ensure VfM is achieved across the program.

There is a range of proven VfM strategies and processes in use by existing funding administrators and recipients, which the Authority will utilise and leverage in carrying out its task. However, the scale and complexity of the recovery activity is much larger than anything experienced in the past under these arrangements and will require extraordinary measures.

Given the scale of the program expected to be managed by the Authority, it is critical that the resources of the Authority are applied to those activities that are at most risk with regard to delivering value for money outcomes. This VfM Strategy addresses these key risks which have been identified through:

1. Drawing on the experience of key funding recipients and project delivery organisations such as Department of Transport and Main Roads (DTMR) and Local Government Authorities (LGAs)
2. Drawing on the experience and expertise of the private sector through advisors to the Authority
3. Leveraging learnings from other programs of similar scale and complexity e.g. Building the Education Revolution.

The VfM Strategy development approach is illustrated below.

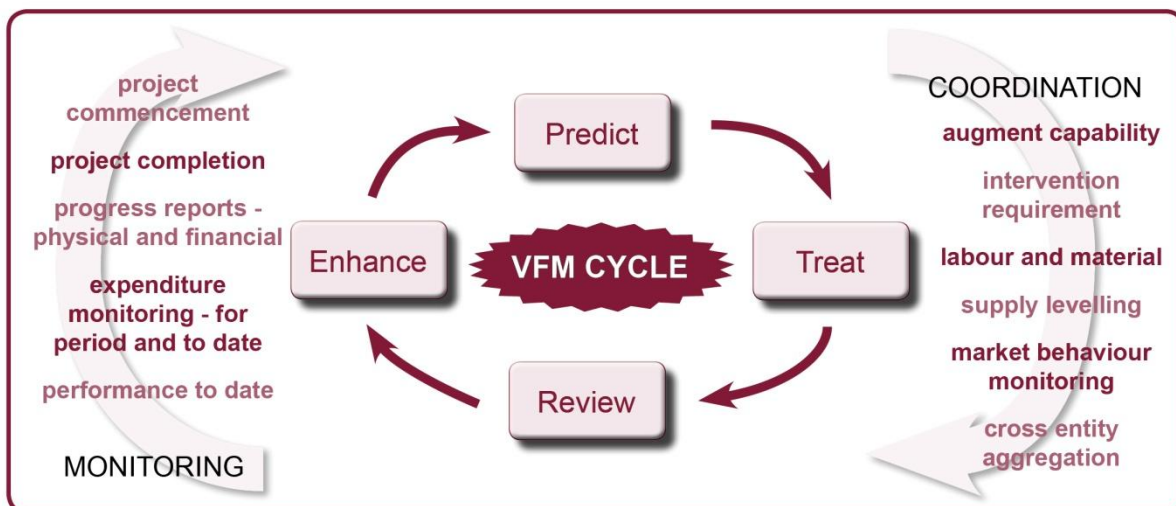


These risks range from local capacity issues including project management skills and experience and constrained local sources of supply, to whole-of-State issues such as the potential for competition for resources and skills, which may drive up costs, and possible diseconomies of scale arising from the challenges of coordinating activities across a vast area.

The VfM Strategy addresses these risks through the following seven treatment strategies:

1. Centralised reporting and common reporting structure
2. Risk-based assurance of existing local VfM strategies and processes
3. Local prioritisation balanced with whole-of-state considerations
4. Devolution of procurement and delivery to the responsible entities best positioned to address the risks identified
5. Transparent accountabilities across the program for VfM outcomes
6. Collaborative engagement with delivery organisations to optimise probability of achieving VfM outcomes
7. Establishment of external scope and cost references, including through price benchmarking, and review.

It is important to recognise that the management of these risks to achieving VfM outcomes is not a static process. Risk assessment is, and will be a dynamic process, reviewed on a regular basis. The Authority will establish a rigorous VfM assurance approach to monitor and, where necessary, improve the effectiveness of these strategies through the ongoing cycle of prediction, treatment, review and enhance (the value for money cycle – illustrated below).



### Value for money cycle

A key foundation of the Authority's VfM assurance approach is the VfM Assurance Framework which prescribes a risk based approach to predicting and treating possible issues in achieving VfM outcomes. The assessment under the framework considers two categories of risk:

1. The VfM readiness of the funding recipient. This involves assessing whether the organisation has allocated the appropriate resources, with adequate skills and experience, to the task of delivery of the disaster recovery program and that it has adequate VfM procedures in place.

2. The proposed project. This involves assessing whether the project would achieve the objectives of the Operation Queensland – The State Community, Economic and Environmental Recovery and Reconstruction Plan (State Plan), whether the cost estimates and delivery method are robust and appropriate, and whether any special considerations might influence the level of risk exposure.

The Authority will assess applications for funding against both these categories. It is important to note the risk assessment is not a 'pass or fail' test; it is intended to allow the Authority to tailor its VfM assurance activities to achieve VfM outcomes with the minimum amount of overlap or duplication of effort with organisations delivering the projects. Applications which are assessed as posing relatively high levels of risk will require a greater level of scrutiny and assistance from the Authority compared to those assessed as posing lower risk.

Regular progress monitoring and reporting is an essential feature of achieving VfM across the State. The Authority will monitor program implementation and use the results of that monitoring to inform future activities and to improve the program to ensure VfM is achieved.

As informed by the VfM readiness and project VfM assessment outcomes, funding recipients will be required to report against an agreed reporting program, including project progress (time) and financial performance. This reporting will be on a 'milestone' or by exception basis as agreed with the Authority. The progress information may be linked to progress payments, pursuant to the Funding Agreement between the Authority and each of the funding recipients.

When the project has been finalised, the funding recipient will be responsible for completing a VfM Outcomes Report, reconciling the approved VfM Statement with the project outcome. The VfM Outcomes Report will require a statement certifying that the project met its approved VfM objectives.

As the program is progressively implemented and VfM outcomes and patterns identified, the lessons learned will be used to inform updates to this VfM Strategy and supporting processes. The Authority's approach to VfM is based on constant identification and mitigation of risk. If VfM performance monitoring reveals new areas to be addressed in the VfM Strategy, these will be incorporated.

The approach adopted by the Authority deals appropriately with the scale and complexity of the reconstruction task in Queensland. It is both rigorous and flexible and balances the need to move quickly to restore essential economic and community infrastructure against the objective of achieving value for money in the reconstruction program. The Authority will rely on tried and proven procurement processes, undertaken by the agencies best placed to prioritise the recovery effort to address local needs and to manage cost and risk. It will coordinate and monitor the progress of reconstruction, to ensure emerging issues are identified and addressed and that relevant stakeholders are informed of key implementation milestones.

## Glossary

Term	Definition
<b>CDO (Counter Disaster Operations)</b>	Counter Disaster Operations are activities undertaken by Local and State government agencies to provide direct assistance to and in the protection of the general public before and during a disaster event <i>Source: Queensland Disaster Relief and Recovery Guidelines 2009-2010, V1.0</i>
<b>Emergent works</b>	(a) Necessary during the course of a disaster to protect eligible public assets or to restore essential services and maintain public safety. This could include earthmoving, rock placing, sand-bagging, installation of tarpaulins, erection of warning signs/barriers, pothole patching, removal of silt and debris, cleaning and removal of an asset or stores to prevent damage; (b) Immediate post-disaster repairs to an eligible asset to enable it to operate/be operated at a reasonable level of efficiency – this would include clean up costs, removal of silt, debris etc. and temporary repairs. <i>Source: Queensland Disaster Relief and Recovery Guidelines 2009-2010, V1.0</i>
<b>Funding Recipient</b>	Includes funding applicants and funding recipients. In the NDRRA determination, described as: an <i>eligible undertaking</i> , which is a body that: (a) is one of the following: (i) A department or other agency of the State government; or (ii) Established by or under a law of the State for public purposes (for example, local government authority); and (b) provides community, social or economic services free of charge or at a nominal charge well below the costs of production. <i>Source: Natural Disaster Relief and Recovery Arrangements Determination, 2007.</i>
<b>Inspectorate</b>	Australian Government Reconstruction Inspectorate
<b>Local Plans</b>	Local Community, Economic and Environmental Recovery and Reconstruction Plans (developed by each Local Government Area) Developed by each local community, these plans help the Authority to understand the recovery needs and priorities of the community. They will provide a local roadmap to assist the community to reconnect, rebuild and improve. <i>Source: Operation Queensland – The State Community, Economic and Environmental Recovery and Reconstruction Plan 2011-2013</i>
<b>NDRRA (Natural Disaster Relief and Recovery Arrangements)</b>	The Commonwealth Government provided funding arrangement to assist payment for natural disaster relief and recovery costs. <i>Source: Natural Disaster Relief and Recovery Arrangements Determination, 2007.</i> Primary mechanism used by the Queensland Government for providing assistance to communities affected by natural disaster events.
<b>Project</b>	May include works at single or multiple sites
<b>Queensland Disaster Relief and Recovery Arrangements 2009/10</b>	Provides an overview of arrangements for the activation and delivery of NDRRA and SDRA – disaster relief and recovery assistance within Queensland, and forms a guide for Local and State Government agencies, associations, primary producers, small businesses and the general public on financial assistance that may be available in the event of a disaster. <i>Source: Queensland Disaster Relief and Recovery Guidelines 2009-2010, V1.0</i>

Term	Definition
<b>Restoration works</b>	<p>Restoration of essential public assets, following an eligible disaster event, to pre-disaster standard/level of service, in accordance with current engineering standards/requirements and building codes/guidelines, while maintaining the same asset class and/or immunity level.</p> <p><i>Source: Queensland Disaster Relief and Recovery Guidelines 2009-2010, V1.0</i></p>
<b>SDRA (State Disaster Relief Arrangements)</b>	<p>To assist in the relief of communities whose well-being has been severely affected by a disaster event (natural or non natural). SDRA is State funded, and therefore not subject to the Australian Government event eligibility provisions or the activation threshold (\$240,000) that exists under NDRRA. As a consequence, SDRA is able to address a wider range of disaster events and circumstances where personal hardship exists.</p> <p><i>Source: Queensland Disaster Relief and Recovery Guidelines 2009-2010, V1.0</i></p>
<b>State Plan</b>	<p>Operation Queensland – The State Community, Economic and Environmental Recovery and Reconstruction Plan.</p> <p>Outlines the road map for reconstruction that will be centred on six lines of reconstruction:</p> <ul style="list-style-type: none"> <li>• Human and Social</li> <li>• Economic</li> <li>• Environment</li> <li>• Building Recovery</li> <li>• Roads and Transport</li> <li>• Community Liaison and Communication.</li> </ul> <p>Provides strategic level guidance for all levels of government, non-government organisations, industry, businesses, local community groups and individuals. It also sets the framework for district and local planning for reconnecting, rebuilding and improving Queensland and recognises planning and recovery efforts that have already commenced.</p> <p><i>Source: Operation QUEENSLANDER – The State Community, Economic and Environmental Recovery and Reconstruction Plan 2011-2013</i></p>
<b>Total outturn cost</b>	<p>The total NDRRA eligible cost of delivering the project, including design, construction and management costs.</p>
<b>VfM (Value for Money)</b>	<p>Value for money is a determination of the outcomes of an individual reconstruction project assessed against how it has contributed to the advancement of Government priorities, as well as cost and non-cost factors that include, but are not limited to whole-of-life and transaction costs and fitness for purpose</p>

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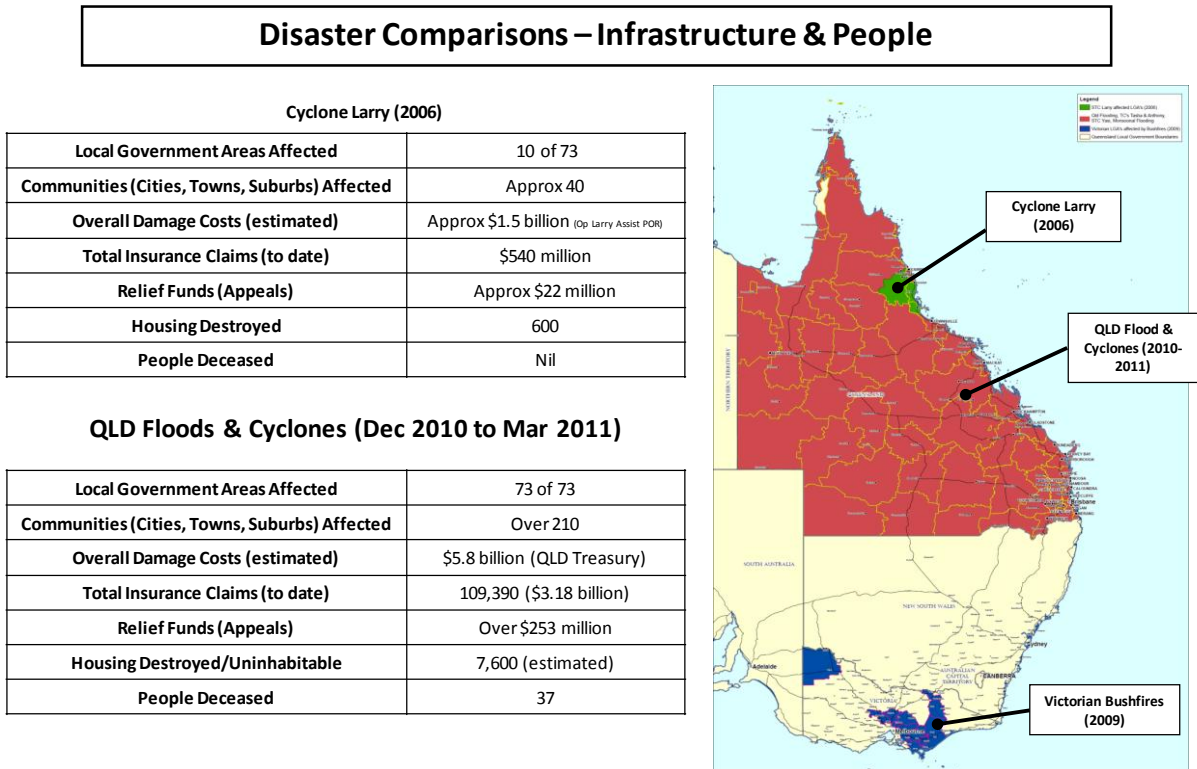
# 1 VFM REQUIREMENTS

## 1.1 Introduction

The natural disasters that struck north-east Australia between November 2010 and February 2011 will long be remembered by the people of Queensland. The catastrophic impacts of both the flooding events that devastated central and south-east Queensland, and the destruction wreaked by Severe Tropical Cyclone Yasi, has resulted in all of Queensland’s 73 local government areas being declared as disaster affected.

Immediately following these natural disasters, it became clear that the size and scale of the recovery and reconstruction would be of post-war proportions, and certainly beyond the scale and complexity of responses to other recent natural disasters.

The difference in scale of impacts and reconstruction requirements are illustrated in Figure 1 below.



**Figure 1 – Scale comparison**

Given the coverage of the impact of the disasters across the whole State of Queensland, the recovery task to be implemented cannot be overstated. This scale and complexity has required the Commonwealth and Queensland Governments to put in place enhanced processes to meet the immediate disaster recovery requirements, and to effectively plan for and deliver an unprecedented level of reconstruction projects.

## 1.2 Reconstruction – an enhanced approach

The joint Commonwealth/State Natural Disaster Relief and Recovery Arrangements (NDRRA) have historically provided the foundation for responding to natural disasters through allowing individuals, communities, primary producers and other business entities, as well as State/Territory and LGAs, to respond to and recover from these events.

The principles, processes and procedures set out in the Commonwealth NDDRA Determination 2007<sup>1</sup>, and the Queensland Disaster Relief and Recovery Arrangements Guidelines 2009-10 (Queensland Guidelines), are well established and have provided the various stakeholders impacted by natural disasters with clear guidance on how to apply for and access the various financial and other support packages available under the NDRRA.

For previous natural disaster events, the State Government has utilised existing procedural and administrative arrangements managed through the Department of Local Government and Planning (formerly the Department of Infrastructure and Planning) for LGAs and Emergency Management Queensland for State agencies. Oversight has been provided at a national level by Emergency Management Australia.

A large proportion of organisations that will apply for and receive funding (DTMR and LGAs) have successfully delivered reconstruction works under these existing arrangements as the result of previous disaster events, and they will continue to play a vital role in the reconstruction effort, particularly in the area of reconstruction of essential public infrastructure and will retain principal responsibility local issues. This experience and the existing processes and procedures in the areas of planning, procurement and project delivery will be vital in the reconstruction effort.

In addition to the NDRRA arrangements, there are existing processes and procedures based on legislative (*Financial Accountability Act 2009* (Qld) and *Local Government Act 2009*(Qld)), regulatory (*Local Government (Finance, Plans and Reporting) Regulation 2010* (Qld)) and policy (State Procurement Policy) requirements that address VfM, accountability and probity in the expenditure of public funds which State Government agencies and LGAs must comply with. These arrangements are subject to regular review and scrutiny through the Queensland Audit Office.

These arrangements will continue to play a key part in the reconstruction effort required to respond to these most recent natural disasters and the Authority will ensure continued access to resources and key decision makers during the long term recovery from the recent disaster events.

As noted above, the scale of these events has resulted in the whole of the state being disaster declared, with several areas being severely impacted. The challenges that this has presented for the current reconstruction effort, has required that these existing processes be enhanced. Specifically, the Australian and Queensland Governments have:

- Established the Queensland Reconstruction Authority as a statutory authority under the *Queensland Reconstruction Authority Act 2011* (Qld) to ensure the efficient and effective coordination of reconstruction effort across the State.
- Established the Disaster Recovery Cabinet.
- In the case of the Commonwealth Government, establish the National Disaster Recovery Taskforce and the Australian Government Reconstruction Inspectorate to coordinate the Commonwealth's interests in the disaster response and provide a further level of oversight for reconstruction projects.
- Executed the National Partnership Agreement for Natural Disaster Reconstruction and Recovery to govern the roles and responsibilities of the various levels of Government and the governance arrangements that will attach to the provision of funding under NDRRA and other specific funding arrangements.

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<sup>1</sup> The current version is the NDRRA Determination 2011

Through these additional measures, the existing processes for governing and coordinating reconstruction efforts across the various levels of government have been enhanced, and the number of stakeholders with a direct interest in the achievement of value for money in the reconstruction effort has increased.

This VfM Strategy seeks to utilise the existing and well tested processes discussed above, including existing VfM and accountability arrangements, and enhance them through the implementation of targeted VfM assurance strategies.

This document sets out the Authority’s VfM Strategy which has been developed specifically to support the State Community, Economic and Environmental Recovery and Reconstruction Plan (the State Plan). The State Plan sets out the higher level scope, scale and priorities of the task ahead.

### 1.3 VfM Strategy Scope and Context

The VfM Strategy operates in the context of existing and enhanced VfM governance mechanisms and assurance tools and activities that will be used by, monitored and reviewed by a wide variety of stakeholders. The responsibilities and accountabilities of the key stakeholders are discussed in detail in Section 4.

Table 1 below sets out:

- the range of stakeholders that will have an interest in, and be involved in, monitoring the achievement of VfM
- VfM governance mechanisms
- VfM assurance tools.

**Table 1 – VfM Strategy Context**

Stakeholders	VfM Governance Mechanisms	VfM Assurance Tools
<ul style="list-style-type: none"> <li>• Disaster Recovery Committee of Cabinet (Qld)</li> <li>• Premier and Minister for Reconstruction</li> <li>• Queensland Reconstruction Authority Board</li> <li>• Queensland Auditor-General</li> <li>• Queensland Ombudsman</li> <li>• Crime and Misconduct Commission</li> <li>• National Disaster Recovery Taskforce</li> <li>• Australian Government Reconstruction Inspectorate</li> </ul>	<ul style="list-style-type: none"> <li>• Queensland Reconstruction Authority Act 2011</li> <li>• Financial Accountability Act 2009 (Qld)</li> <li>• Auditor-General Act 2009 (Qld)</li> <li>• Local Government Act 2009 (Qld) and City of Brisbane Act 2010 (Qld)</li> <li>• State Procurement Policy September 2010 (Qld)</li> <li>• National Partnership Agreement</li> <li>• Queensland Disaster Relief and Recovery Arrangements – Guidelines – 2010</li> <li>• NDRRA Determination</li> </ul>	<ul style="list-style-type: none"> <li>• Queensland Reconstruction Authority Value for Money Strategy</li> <li>• Queensland Reconstruction Authority Procedures including Submission Guide</li> <li>• Queensland Reconstruction Authority monthly VfM Reports</li> <li>• Queensland Audit-Office review of VfM Assurance Framework</li> <li>• Queensland Audit Office annual reviews of the Queensland Reconstruction Authority and State Government agencies and LGAs delivering reconstruction projects</li> <li>• Monitoring by the National Disaster Recovery Taskforce and Australian Government Reconstruction Inspectorate</li> </ul>

This VfM Strategy is an outcomes-focused living document that recognises that the reconstruction of Queensland will be an enormous undertaking, where the challenges will be equally enormous and evolving. The processes and procedures outlined in this document will be regularly reviewed and, if necessary, enhanced.

## **1.4 Rationale and Principles of the VfM Strategy**

The VfM Strategy balances the need for a timely response in the reconstruction effort with the expectation that best practice be applied where appropriate to maintain confidence that VfM has been achieved.

The VfM Strategy is developed around three principles that are generally accepted as core to successfully achieving VfM outcomes:

- Transparency
- Efficiency
- Effectiveness.

The Authority will adopt these principles across the program of works funded through the Authority, to ensure the reconstruction effort achieves VfM and that it maintains the confidence of stakeholders.

## **1.5 VfM definition and VfM Strategy objective**

Based on the guiding principles set out in the Queensland State Procurement Policy - September 2010 (attached in Appendix E) , with which all Queensland agencies must comply, the Authority has adopted the following definition of VfM in the context of reconstruction projects:

*Value for money is a determination of the outcomes of an individual reconstruction project assessed against how it has contributed to the advancement of Government priorities, as well as cost and non-cost factors that include, but are not limited to, whole-of-life and transaction costs and fitness for purpose.*

The objective of the VfM Strategy is to balance the achievement of the requirements under the State Procurement Policy and the principles of transparency, efficiency and effectiveness as the core elements to achieving VfM. The VfM Strategy seeks to achieve this balance through utilising the range of proven VfM strategies and processes in use across State Government agencies and LGAs, and developing effective strategies that are specifically tailored to addressing the achievement of VfM outcomes at a State program and local project level.

The following considerations will inform the assessment of Value for Money:

### **Funding Recipient**

- Relevant legislative and regulatory requirements including the State Procurement Policy and the *Local Government Act (2011)*
- Proposed approach and resources to manage the projects
- Procedures and processes established by funding recipients to manage projects to achieve VfM
- Funding recipient's experience and track record in delivering projects similar to those identified in the submission.

### **Project(s)**

- Consistency of project objectives with those in the State Plan
- Proposed tender/procurement method
- Competitive tension present in developing cost estimates
- Use of appropriate cost benchmarks used to assess reasonableness of cost estimates
- Proposed contract type, special conditions and allocation of risk
- Project duration and milestones
- Fitness for purpose
- Whole of life considerations in the selection of preferred project
- Extent of local participation in accordance with Local Industry Policy
- Forecast outturn cost of the project
- Project workforce, including full-time equivalents, Indigenous Australians, trainees and women.

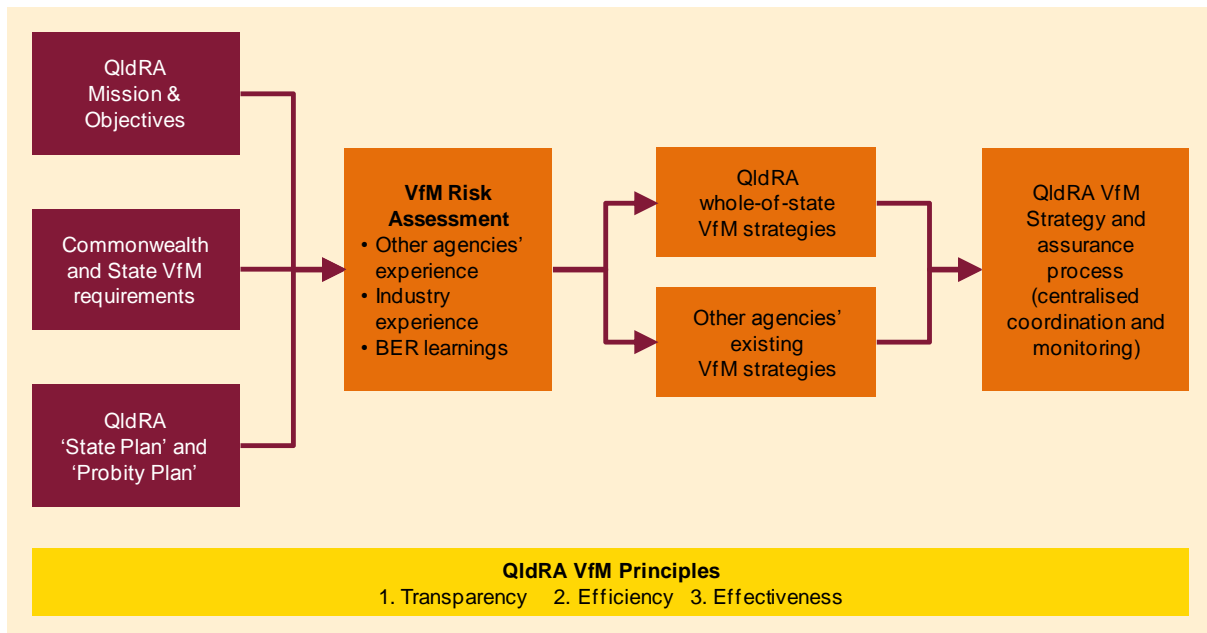
## **2 RISK-BASED METHODOLOGY**

To achieve efficiency, effectiveness and transparency across such a large scale program of works, the Authority will assure VfM using a risk-based approach that informs the level of scrutiny to be applied to submissions, and ensures that the Authority's resources are applied to those activities where achieving VfM is most at risk. This approach is designed to address the challenges set out in section 3. Within the context of the VfM Strategy, the focus is on the identification, assessment, and treatment of risks (see Appendix B) to the delivery of optimum VfM outcomes.

This VfM Strategy addresses these key risks which have been identified through:

1. Drawing on the experience of key funding recipients and project delivery organisations such as DTMR and LGAs
2. Drawing on the experience and expertise of the private sector through advisors to the Authority
3. Leveraging learnings from other programs of similar scale and complexity e.g. Building the Education Revolution

This approach is illustrated in Figure 2.



**Figure 2 – Vfm Strategy development approach**

The approach to Vfm set out above is based on a cycle of continuous monitoring that will encompass the following:

- Predict – this is a combination of planning and risk identification to predict both what is desired to occur, but also what could potentially occur
- Treat and manage – where appropriate, effective treatment should be applied to, in the first instance, decrease the likelihood of a risk event occurring. Proposed treatments may also be identified to mitigate the risk (reduce the consequences) if it should occur
- Review – the ongoing review of performance is essential to providing confidence in the outcome being achieved
- Enhance – to avoid any potential erosion of Vfm and provide continuous feedback to the Authority’s approach to Vfm assurance

This process is explained in detail in Section 5.2 below.

### 3 ACHIEVING VFM OUTCOMES

The key challenges which are likely to give rise to risks to Vfm outcomes have been identified and are outlined in the following sections. More detail on the risks which arise from these challenges is provided at Appendix B.

It is important to recognise that this is not a static process. Risk assessment is a dynamic process that will be undertaken and reviewed on a regular basis.

#### 3.1 State program level

At the state program level, the following challenges are to be addressed:

- The potential conflict between achieving acceptable speed in delivery and the need to ensure due diligence across the diverse range of organisations involved
- Ensuring that the strengths of relevant organisations are effectively leveraged

- The potential for the level of demand and competition between organisations to create price escalation
- Coordinating activities across a vast and diverse physical area, carried out by many participants
- Balancing sustainability impacts associated with significant programs of reconstruction works being undertaken across regions, including impacts on communities and the environment
- Balancing centralisation of some activities to achieve economies of scale with responsiveness to local needs and conditions
- The potential conflict between achieving acceptable cost of delivery and the need to avoid unacceptable economic costs due to delays in restoration of essential public infrastructure, especially the State-wide freight network
- Ensuring some 73 local authorities have capability and capacity to ensure VfM is achieved in devolved prioritisation, procurement and delivery activities (VfM readiness).

### **3.2 Local project level**

The following challenges have been identified at an organisational or project level:

- The need for the VfM approach to recognise and work within the differences in capability and capacity of individual delivery organisations
- The need to ensure that Local Plan objectives are in alignment with the State Plan
- The requirement to ensure that projects are aligned with Local Plan objectives
- Ensuring that the costs to deliver outcomes are reasonable
- Ensuring that non-cost values are also considered including the impact on communities across impacted regions, given the unprecedented scale of reconstruction projects
- The achievement of effective trade-offs to enable optimum VfM outcomes.

## **4 RESPONSIBILITIES AND ACCOUNTABILITIES IN ACHIEVING VfM**

While the Authority will have overall responsibility for facilitating and monitoring VfM outcomes in coordinating reconstruction activities across the State, there are also clear responsibilities and accountabilities of each of the key stakeholders in the reconstruction effort. Table 2 below sets out a description of the specific responsibilities and accountabilities of key stakeholders in the context of achieving VfM to enable:

- understanding of expectations of the Authority by key stakeholders such as the community and State and Commonwealth Government agencies such as the Queensland Audit Office, the National Disaster Recovery Taskforce and the Australian Government Reconstruction Inspectorate.
- clarity of understanding of the responsibilities of State Government agencies and LGAs as the recipients of funding, and the entities ultimately responsible for the planning and delivery of reconstruction projects.

**Table 2 – VfM Responsibilities and Accountabilities**

Stakeholder	Specific VfM responsibility	VfM Accountabilities
Community	Feedback on progress from a community perspective.	Contribute to coordination of reconstruction effort via input into Local Plans and State Plan.  Provision of feedback to the Authority or related Line of Reconstruction committee on the quality, timeliness and community impacts of reconstruction projects.
Funding recipients	Procure and deliver projects that achieve VfM outcomes.	Comply with all State and Commonwealth legislative and regulatory requirements, including State Procurement Policy and direct legislative obligations (e.g. <i>Financial Accountability Act 2009</i> and <i>Local Government Act 2009</i> ).
Queensland Reconstruction Authority	Assure achievement of VfM outcomes across the state-wide reconstruction program.	Undertake activities in accordance with the <i>Queensland Reconstruction Authority Act 2011</i> .  Establish and conduct an assurance process to predict, assess and treat risks to VfM and enhance VfM approaches as necessary.  Establish a transparent reporting process to report both VfM assurance activities and outcomes.
Disaster Recovery Cabinet Committee	Provide strategic direction at senior level of Government of overall disaster recovery and reconstruction program.	Advancement of reconstruction priorities identified in the State Plan, particularly across the Lines of Reconstruction.  Coordination with Commonwealth Government Cabinet/Cabinet Committees.
Queensland Audit Office	Independent assessment of the financial management-related activities of all public-sector entities including the Authority, State Departments and LGAs.	Provide independent audit services and reports to Parliament to enhance public sector accountability.  Provide confidence to the community that public funds directed to the reconstruction effort are being managed efficiently and VfM is achieved for reconstruction projects.
Australian Government Reconstruction Inspectorate (Inspectorate)	'...provide assurance that value for money is being achieved in the expenditure of both Commonwealth and State funds during the recovery phase.' <i>Source: National Partnership Agreement, paragraph 35</i>	Work closely within established processes within State agencies and provide an additional level of check and balance for expenditure of funds.  Not replicate the function or responsibilities of entities such as the Authority or Commonwealth or State Ombudsmen or Auditor-Generals.  <i>Source: National Partnership Agreement, paragraph 35(b) &amp; (c)</i>
National Disaster Recovery Taskforce	The Taskforce will have as its sole focus the oversight and coordination of Commonwealth interests in relation to the recovery and reconstruction efforts regarding the flooding events that took place in late 2010 and early 2011 and Cyclone Yasi.  <i>Source: National Partnership Agreement, paragraph 41</i>	Assess spending on recovery and reconstruction efforts arising from the flooding and cyclone events to ensure consistency with NDRRA.  Assess requests for Commonwealth funding assistance outside those automatically triggered by a declaration under the NDRRA (including Category D requests) and advise the Commonwealth Government on these

Stakeholder	Specific VfM responsibility	VfM Accountabilities
		<p>requests.</p> <p>Ensure that a strategic approach is taken to reconstruction efforts, incorporating the principles of local input, and leverage effort across all three tiers of government and the private and not-profit sectors.</p> <p><i>Source: National Partnership Agreement, paragraph 41 (e), (f) &amp; (g)</i></p>

## 5 STRATEGIES TO ACHIEVE VFM OUTCOMES

The VfM Strategy addresses program risks arising from the above challenges through the following seven treatment strategies:

1. Centralised reporting and common reporting structure
2. Risk-based assurance of existing local VfM strategies and processes
3. Local prioritisation balanced with whole-of-state considerations, including optimising between time and cost of delivery
4. Devolution of procurement and delivery to the responsible entities best positioned to address the risks identified
5. Transparent accountabilities across the program for VfM outcomes
6. Collaborative engagement with delivery organisations to optimise probability of achieving VfM outcomes
7. Establishment of external scope and cost references, including through price benchmarking, and review.

These approaches are discussed in more detail below.

### 5.1 Centralised and common reporting structure

***Challenges addressed:***

- ***Coordinating activities across a vast and diverse physical area, carried out by many participants***

To enable transparency to a project level, the Authority will establish a common reporting structure. Wherever possible this will draw from those organisations' existing systems to minimise additional reporting. This information will be used to monitor, coordinate and, where necessary, address any issues arising at a local or state wide level. This common structure allows reporting at all program levels and by various categories.

### 5.2 Risk-based assurance of existing local strategies and processes

***Challenges addressed:***

- ***The potential conflict between achieving acceptable speed in delivery and the need to ensure due diligence across the diverse range of organisations involved***
- ***Ensuring that the capabilities of relevant organisations is effectively leveraged***

- ***The need for the VfM approach to recognise and work within the differences in capability and capacity of individual delivery organisations***

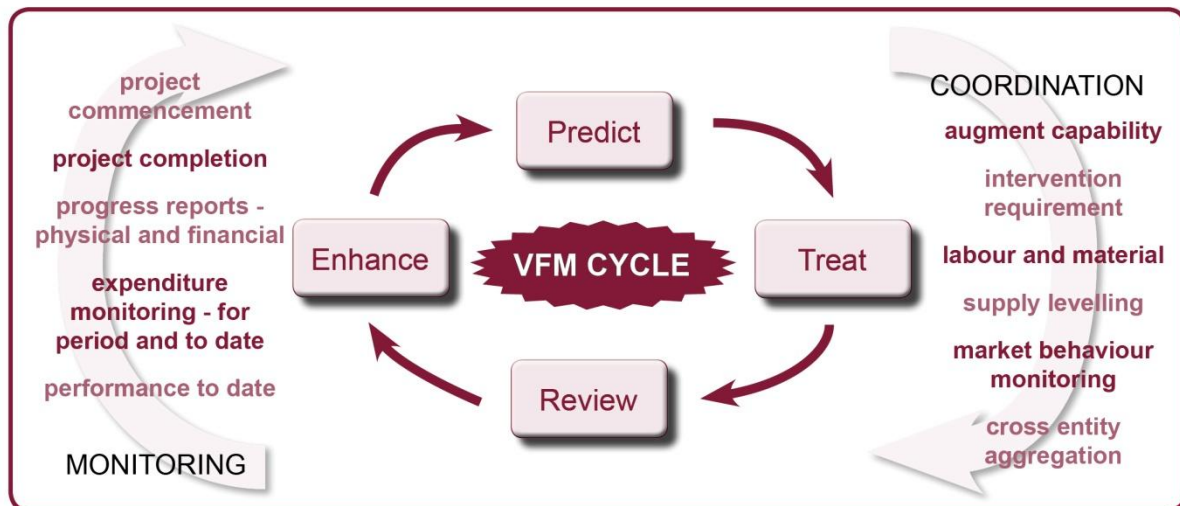
In managing the state program, the Authority will ensure the funding recipients have adopted appropriate approaches to achieving VfM outcomes. Existing strategies and processes will be used wherever possible. The Authority will assist an organisation where necessary to develop appropriate strategies and processes.

Based on an assessment of the challenges facing each project or program, the Authority will undertake certain VfM assurance activities (e.g. Price Benchmarking, detailed desktop based review, field review, and other sample reviews as determined appropriate). The assessment will take into account features including:

- alignment to Price Benchmarks
- level of competition in procurement method for that project
- experience of the funding recipient in one or more of delivering the type and scale of project and of using the planned procurement method
- capacity of the funding recipient to manage the project.

The Authority will establish a rigorous VfM assurance process to monitor and, where necessary, improve the effectiveness of these strategies and processes through the ongoing cycle of prediction, treatment, review and enhance (the value for money cycle).

This cycle, and how it fits within the monitoring and coordination function is illustrated at Figure 3.



**Figure 3 – Value for money cycle**

Project management will encompass:

- Predict – this is a combination of planning and risk identification to predict both what is desired to occur, but also what could potentially occur
- Treat and manage – where appropriate, effective treatment should be applied to, in the first instance, decrease the likelihood of a risk event occurring. Proposed treatments may also be identified to mitigate the risk (reduce the consequences) if it should occur
- Review – the ongoing review of performance is essential to providing confidence in the outcome being achieved

- Enhance – to avoid any potential erosion of VfM.

Generally, funding recipients have existing policies and procedures in place for prioritising, procuring and delivering capital works projects. These policies and procedures are in line with existing requirements such as the State Procurement Policy that have their basis in legislative and regulatory requirements that apply to State Government agencies and LGAs including the *Financial Accountability Act, 2009* and the *Local Government Act 2009*. VfM assurance processes are embedded in these existing policies and procedures, as well as being reflected in standard contracts and procurement arrangements. In accordance with the legislative principles discussed above, the procedures are subject to consistent review and assessment, including by the Queensland Auditor-General.

The Authority will only require additional arrangements where the existing arrangements do not satisfy these minimum (already existing) requirements, or alternatively if through the Authority's assurance activities, it is identified that the existing arrangements could be enhanced.

A number of the key participants in reconstruction projects have developed strategies to specifically address the challenges to achieving VfM that arise from the unprecedented nature of the disaster recovery.

For example, DTMR has developed a Significant Procurement Plan that sets out clear strategies that they will use to engage the contracting market to ensure resources are procured in an appropriate manner to achieve VfM. This strategy aligns the specific contract models to the size and complexity of individual projects in the DTMR network reconstruction program. The DTMR strategy also sets out measures to achieve VfM in the procurement of key road materials.

In addition, the Local Government Association of Queensland has developed a Local Government Value for Money Delivery Framework to assist LGAs in the procurement and delivery of reconstruction projects under NDRRA.

### **5.3 Local prioritisation balanced with whole-of-state considerations**

#### ***Challenges addressed:***

- ***Balancing centralisation of some activities to achieve economies of scale with responsiveness to local needs and conditions***
- ***The potential for the level of demand and competition between organisations to create price escalation***
- ***The need to optimise between cost of delivery of restoring essential public assets and the economic cost of delaying such projects***

Priorities will be set by local entities to ensure that the specific community needs are recognised and addressed. The priorities and specific community needs will be identified in the preparation of Local Plans, and this process will also inform how these local priorities align with the Lines of Reconstruction in the State Plan. The Authority will consider these priorities in the context of the state program to recognise overall constraints on labour and material inputs and to identify opportunities for improving value for money outcomes, for example by adjusting timing of projects, leveraging centralised procurement power and economies of scale etc.

In considering the timing of projects, the Authority will also have regard to the economic cost of delaying restoration of essential public assets, in particular the State-wide freight network.

## **5.4 Devolution of procurement and delivery to the responsible entities best positioned to address the risks identified**

### ***Challenges addressed:***

- ***Balancing centralisation of some activities to achieve economies of scale with responsiveness to local needs and conditions***
- ***Need to ensure the reconstruction program supports economic recovery objectives***

The majority of reconstruction work is relatively low risk in nature, for example, reconstructing local or rural roads, and within the capabilities of the organisations that will deliver this work. It is therefore appropriate to devolve procurement responsibility to the entity with long term responsibility for the asset. By devolving responsibility to the long term asset manager, risks relating to fitness for purpose, effective asset planning, asset integration and longer term asset management can be mitigated more effectively.

In carrying out the reconstruction program, funding recipients should have regard to the economic rebuilding objectives of the State Plan, including the need to employ, where practicable, local contractors and workforce and recognising the Australian and Queensland Governments' commitment to social inclusion, including responding to Indigenous disadvantage.

The State Procurement Policy defines the standard to which the Authority is expected to operate to achieve VfM outcomes. This Strategy aligns to the State Procurement Policy and generally, the Authority will not require additional arrangements to be made by the funding recipients beyond their existing arrangements that already satisfy the State Procurement Policy.

Alignment of the Strategy to the State Procurement Policy is provided at Appendix A. Further detail on the analysis supporting this procurement approach is provided at Appendix C.

## **5.5 Transparent accountability for VfM outcomes**

### ***Challenges addressed:***

- ***Program delivers on the State Plan or Local Plan objectives***
- ***Maintaining visibility of activities across a vast and diverse physical area carried out by many participants***

Funding recipients are expected to leverage existing accountability procedures. Such procedures should include:

- Minimum requirements in contractual terms and conditions in particular for variations, dispute resolution, and remediation
- Procedures to seek and address general community concerns and feedback
- Formal reporting and action to funding providers regarding VfM outcomes.

## **5.6 Collaborative engagement with delivery organisations to optimise probability of achieving VfM outcomes**

### ***Challenges addressed:***

- ***Need to leverage delivery strengths of relevant organisations***
- ***Need to recognise varying degree of capability amongst delivery organisations***
- ***Need to ensure program delivers on objectives***

The Authority will seek to confirm the 'VfM Readiness' of each of the funding recipients to understand the recipient's capability and capacity to deliver planned projects or programs. This assessment will, in the first instance, be informed by the quality of the submissions received. This approach recognises that there will be a range of capability and capacity amongst the funding recipients and that the Authority will need to take different approaches in monitoring and coordinating the projects these organisations deliver based on that capability and capacity.

## **5.7 Establishment of external scope and cost references and review processes**

### ***Challenges addressed:***

- ***Managing cost pressures arising from demand***
- ***Costs should be reasonable.***

The Authority will leverage existing resources (e.g. DTMR Cost Benchmarks) where possible to establish external scope and cost references including:

- Price Benchmarks (across projects)
- Detailed desktop reviews (medium and high risk projects)
- Field reviews (will focus on high risk projects)
- Sample reviews (sample across projects).

# **6 VFM ASSURANCE FRAMEWORK**

## **6.1 Overview of the VfM Assurance Framework**

The VfM Strategy sets out the approach the Authority will take to assure VfM. An overview of the assurance activities and considerations to be undertaken over the lifecycle of a submission is illustrated in Figure 4 below and described in more detail in the remainder of this section.

In addition, a detailed Submission Guide (the Guide) has been prepared to clearly set out the information and assessment requirements at all phases of the VfM Assurance Framework. The Guide is discussed in greater detail in Section 7 below.

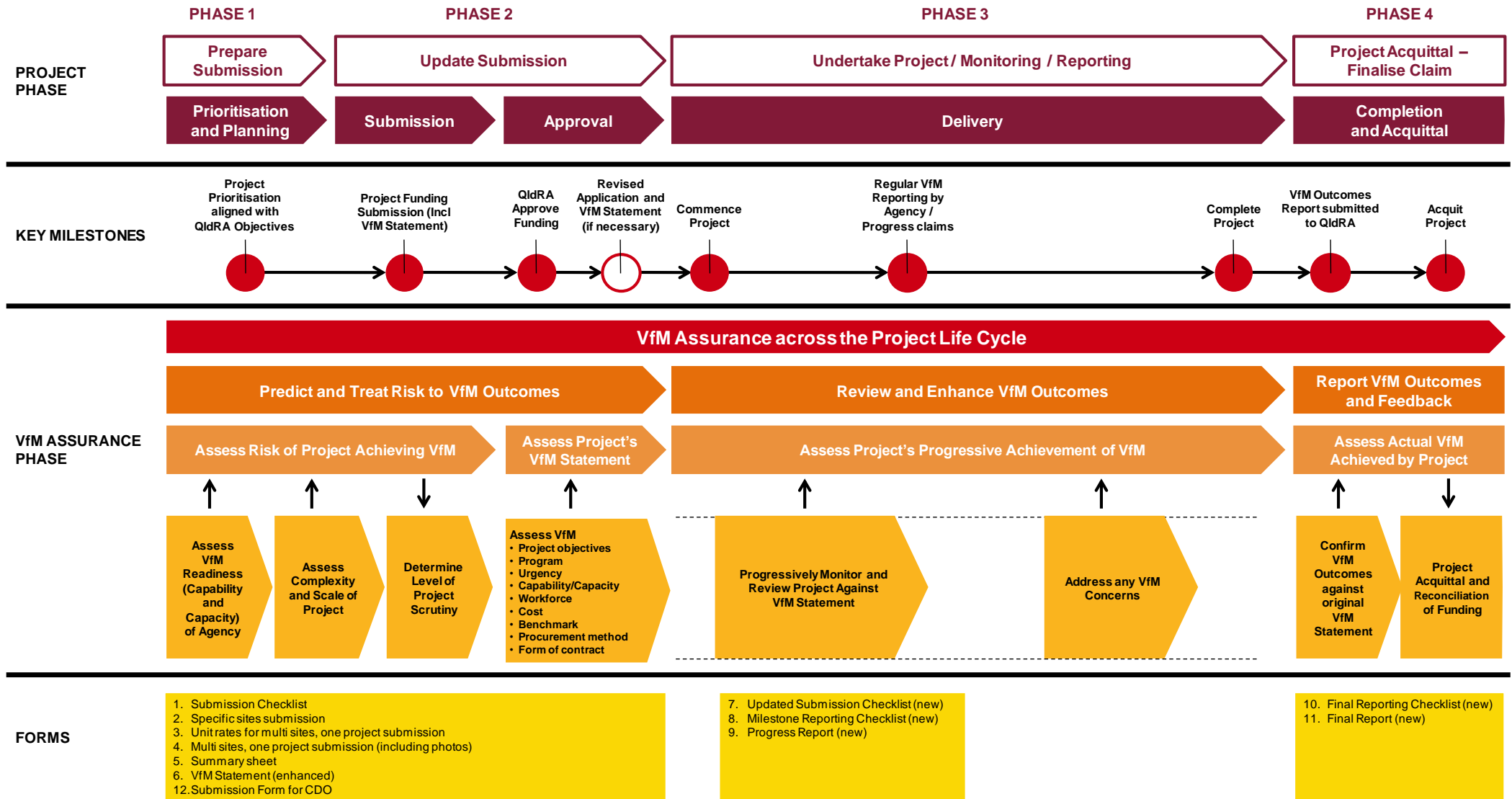


Figure 4 – VfM Assurance Framework

## 6.2 Phases 1 and 2 – Prepare and Update Submissions

### 6.2.1 Predict and treat risks to VfM outcomes

The VfM Assurance Framework considers:

1. The VfM readiness of the funding recipient. This involves assessing whether the organisation has allocated the appropriate resources, with adequate skills and experience, to the delivery of the disaster recovery program and that it has adequate VfM procedures and documentation in place.

In assessing VfM readiness, the following elements will be considered.

	Questions
<b>Resourcing</b>	<ul style="list-style-type: none"> <li>• How is the program management function resourced?</li> <li>• What is the level of skills and experience of the program management function?</li> </ul>
<b>Procedures and processes</b>	<ul style="list-style-type: none"> <li>• How does the agency document procedures and processes to manage the program in a manner that will support the achievement of VfM outcomes?</li> </ul>
<b>Track record</b>	<ul style="list-style-type: none"> <li>• What experience does the funding recipient have delivering programs of this nature?</li> </ul>
<b>Capital Program commitments</b>	<ul style="list-style-type: none"> <li>• What is the scale and scope of the entire capital program being undertaken by the funding recipient?</li> </ul>

2. The proposed project, including whether it would achieve the objectives of the State Plan, whether the cost estimates and delivery method are robust and appropriate, and whether any special considerations might influence the level of risk exposure.

Depending on the Authority's assessment of the VfM readiness of the funding recipient and the nature, scale and complexity of the project or program, the Authority may have regard to the following considerations.

	Questions
<b>Project objective</b>	<b>Do the performance expectations and outcomes contribute to the strategic objectives of the State Plan?</b>
<ul style="list-style-type: none"> <li>• Fitness for purpose</li> </ul>	<ul style="list-style-type: none"> <li>• How will the proposed solution deliver objectives?</li> <li>• Are those objectives consistent with the State Plan?</li> </ul>
<ul style="list-style-type: none"> <li>• Quality</li> </ul>	<ul style="list-style-type: none"> <li>• Does the proposed solution comply with relevant standards?</li> </ul>
<ul style="list-style-type: none"> <li>• Service and support</li> </ul>	<ul style="list-style-type: none"> <li>• Can outputs be delivered over time to appropriate standard?</li> </ul>
<ul style="list-style-type: none"> <li>• VfM Statement</li> </ul>	<ul style="list-style-type: none"> <li>• Has a VfM Statement capturing the project VfM objectives and expected price been prepared? (Refer section 6.2.2 below)</li> </ul>
<b>Cost considerations</b>	
<ul style="list-style-type: none"> <li>• Cost information</li> </ul>	<ul style="list-style-type: none"> <li>• Does the submission include sufficient information to allow the Authority to understand the basis of the cost estimates?</li> </ul>
<ul style="list-style-type: none"> <li>• Benchmark costs</li> </ul>	<ul style="list-style-type: none"> <li>• What appropriate cost benchmarks have been used to assess reasonableness of cost estimates?</li> </ul>

Questions	
<b>Priority, scale and complexity</b>	
<ul style="list-style-type: none"> <li>Size and scope of the project</li> </ul>	<ul style="list-style-type: none"> <li>Is the size or type of the proposed project unusual for the delivering agency?</li> </ul>
<ul style="list-style-type: none"> <li>Urgency</li> </ul>	<ul style="list-style-type: none"> <li>Is the proposed project intended to meet particularly urgent objectives?</li> </ul>
<b>Procurement</b>	
<ul style="list-style-type: none"> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>What competitive tension was present in developing the cost estimates? If panel or sole tendering, what mitigation strategies were utilised to assure VfM?</li> </ul>

The Authority will assess applications against both these categories. It is important to note the risk assessment is not a 'pass or fail' test; it is intended to allow the Authority to tailor its VfM assurance activities to achieve VfM outcomes with the minimum amount of overlap or duplication of effort with organisations delivering the projects. Applications which are assessed as posing relatively high levels of risk will require a greater level of scrutiny and assistance from the Authority compared to those assessed as posing lower risk.

As set out in Section 3.2 of the Guide, this phase of the VfM Assurance Process allows the Authority to consider submissions on the basis that all relevant information has been provided and the VfM readiness of the Funding Recipient, and the risks to VfM specific to the project, are able to be fully assessed.

### 6.2.2 VfM Statement

A brief VfM Statement outlining VfM objectives and approach is required from each Funding Recipient. In preparing a VfM Statement, Funding Recipients should be aware and have regard to the considerations detailed in section 6.2.1 in developing information to describe projects of the size, type and complexity for which they seek funding.

To avoid imposing unnecessary requirements on Funding Recipients, the required information will be a summary of normal project planning information. If the funding recipient's existing processes or documentation satisfy the above intent, there is scope for these to be used in lieu of an explicit VfM Statement.

The VfM Statement will also be used as the basis for reconciling VfM outcomes throughout the lifecycle of the project. The VfM Statement will therefore need to set minimum requirements for information to enable VfM to be reconciled. This information will vary depending on the complexity and risk of the project, but is likely to include:

- Direct construction costs
- Construction management costs
- Design costs
- Overheads.

This information should be provided per project as submitted by the funding recipient.

## **6.3 Phases 3 and 4, Undertake Project and Finalise Claim**

### **6.3.1 Monitor VfM progress (Review and Enhance)**

Regular progress monitoring and reporting is an essential feature of achieving VfM across the program. The Authority will monitor program implementation against the VfM Statement and use the results of that monitoring to inform future activities and to improve the program to ensure VfM is achieved.

As informed by the outcomes of the assessment of VfM readiness, funding recipients will be required to report against the project information provided in their submissions, including:

Project progress (time)

- Project start date vs planned start
- Progress milestones (if applicable) for example 'road pavement sealed'
- Estimated time to project completion
- Estimated percentage completion versus the target.

Financial performance (cost)

- At milestone, cost variance versus budget
- Estimated cost to complete
- Estimated cost at completion.

In addition, funding recipients will also be required to report against non-cost factors that inform how the project is supporting broader government objectives e.g. generation of employment opportunities.

This reporting will be on a 'milestone' or by exception basis. The progress information may be linked to progress payments, pursuant to the Funding Agreement between the Authority and each of the funding recipients.

Authority staff will use this reported information to prepare a monthly VfM Report for the Board. The Authority's reporting and performance monitoring arrangements will allow the interrogation of information supplied by funding recipients either on an individual project basis, or by a broad range of aggregate and cross sectional measures (for example by funding recipient, by class of asset or by region). The analysis by the Authority is likely to include:

- At a whole of program level, performance in implementation against expectations
- Emerging trends or patterns (for example, actual construction costs against budget, cost trends across the program)
- Corrective actions to enhance VfM across the program, including measures to improve project management or, over time, adjustments to the reconstruction program and the VfM framework (see 6.4 below).

### **6.3.2 Report VfM outcomes**

When the project or program of works has been finalised, the funding recipient will be responsible for completing a VfM Outcomes Report reconciling the original VfM Statement (where applicable)

with the project or program outcome. The VfM Outcomes Report will require a statement certifying that the funding recipient met its VfM objectives. This report forms a key part of the Final Report.

## **6.4 Continuous improvement (Enhance)**

As previously stated, the VfM strategy document is an outcomes-focussed living document and must recognise that the challenges associated with addressing the reconstruction of Queensland will be evolving. Therefore the processes and procedures that underpin the implementation of the VfM Strategy will be regularly reviewed and, if necessary, amended to ensure the overall achievement of the intent of the strategy.

In addition, as the program is progressively implemented and VfM outcomes and patterns identified, the lessons learned will be used to inform updates to this VfM Strategy and supporting processes and procedures. The Authority's approach to VfM is based on constant identification and mitigation of risk. If VfM performance monitoring reveals new areas to be addressed in the VfM Strategy, these will be incorporated.

# **7 IMPLEMENTATION OF THE VFM STRATEGY**

The Authority has developed processes and procedures to implement the VfM assurance framework set out in this strategy. These processes and procedures have been developed to both assist funding recipients in the preparation of submission for funding from the Authority, and to clearly set out reporting requirements in support of VfM assurance processes developed during the application stage and in the preparation of VfM Statements for individual projects.

## **7.1 Submission Guide**

A Submission Guide (the Guide) has been developed to assist Funding Recipients to make funding submissions to the Authority. As a significant proportion of the funding provided by the Commonwealth and State Government will be through the NDRRA, the development of the Guide incorporates wherever possible the existing processes and procedures that have been utilised for responses to previous natural disaster events. These processes have been enhanced to incorporate the VfM assurance processes set out in the VfM Strategy.

Based on the VfM Assurance Framework in Figure 4 above, the Guide has been prepared to clearly set out the information required from funding recipients throughout the VfM assurance process. Information collected in forms and templates allows the Authority to assess the eligibility of projects for funding and enables the Authority to undertake VfM assurance activities.

Section 3 of the Guide sets out a detailed explanation of the processes at each Phase of the VfM Assurance Framework. Section 4 provides guidance on the information required to complete the relevant forms required in each Phase.

To avoid an excessive administrative burden for funding recipients, the Authority has, to a large extent, based the required forms on existing templates that have been used to assess applications for funding under NDRRA for previous disaster events. These existing forms and templates have been amended and complemented by additional forms to enable relevant data to be gathered from funding recipients to allow the Authority to assess and report against VfM outcomes of reconstruction projects in key areas including cost, timeframe and scope.

Section 3.3 of the Guide sets out the full list of documents and explains where they have changed from previous forms to incorporate the VfM assurance processes.

The information collected from Funding Recipients will allow the Authority to continue to monitor VfM outcomes on individual projects, and provide accurate reporting of these outcomes to key stakeholders, including the Queensland Audit Office, Authority Board, Commonwealth and State Governments, the Inspectorate and the public.

## **7.2 VfM Checklists**

The forms set out in the Submission Guide, and the ongoing progress and performance of reconstruction projects will be assessed and reviewed by the Authority using VfM checklists as a basis. These checklists allow the Authority to undertake an initial assessment of VfM readiness for funding recipients and likelihood of achieving VfM for individual projects and programs, utilising the risk based approach.

The VfM checklists will also guide the Authority in assessing specific components of cost estimates and allow the Authority to continually review these components against benchmarks. The checklist requirements for progressive monitoring will support the Authority's reporting obligations and also provide ongoing assessment of performance in terms of schedule and cost, and allow for the review and reporting of significant variances in these areas.

The VfM checklists set out in broad terms the various assessment criteria that the Authority will use to identify the key risks to achieving VfM for individual projects, monitor and treat these risks, and where necessary prescribe mitigation or enhancement strategies.

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## **APPENDIX A    Alignment with State Procurement Policy**

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## Alignment with State Procurement Policy

The State Procurement Policy was redeveloped and reconfirmed by the government in September 2010. This policy has subsequently been embedded in all State agencies. It is consistent with the obligations of local authorities set out within the Local Government Act 2009 and subsequent regulation.

The State Procurement Policy incorporates three foundation concepts:

1. Advancing priorities of the Government
2. Value for money
3. Probity and accountability for outcomes

This Policy includes the establishment of a Procurement Board of Management, a Procurement Council and Queensland Government Chief Procurement Office. The Queensland Government Chief Procurement Office provides significant central guidance and support for procurement by all state agencies and local authorities. As set out in section 6.4 below, significant guidance has already been integrated into this new Purchasing policy.

By leveraging existing and proven current procurement strategies and devolving procurement responsibility to the responsible entity confidence in maintaining alignment with State Procurement Policy.

The State Procurement Policy was updated in September 2010 to incorporate latest best practice experience.

The objectives of the State Procurement Policy are to:

- **advance the priorities of the Government** – Each agency must seek to advance priorities of the Queensland Government. These priorities define the Government’s commitment to advance, through its procurement, certain social, economic and environmental objectives.
- **achieve value for money** – Each agency must seek to obtain best value for money in its procurement. The concept of value for money is not restricted to price alone. The value for money assessment must include consideration of:
  - contribution to the advancement of priorities of the Government
  - non-cost factors such as fitness for purpose, quality, service and support, and sustainability considerations
  - cost-related factors including whole-of-life costs and transaction costs associated with acquisition, use, holding, maintenance and disposal.
- **ensure probity and accountability for outcomes** – An agency must conduct its procurement activities in a transparent manner which demonstrates probity and accountability. Each agency is to ensure that its procurement is carried out in accordance with such obligations as may be placed upon it by the:
  - Financial Accountability Act 2009
  - Financial and Performance Management Standard 2009
  - Public Sector Ethics Act 1994

- such other legislative or Government policy obligations which may apply to the procurement activities of the agency.

The State Procurement Policy sets out the role and function of the Procurement Board of Management, the Procurement Council and Queensland Government Chief Procurement Office.

This Queensland Government Chief Procurement Office provides significant central guidance and support for procurement by all state agencies and local authorities. A number of existing support and guidance mechanisms are already available to government agencies and local authorities.

### Chief Procurement Office

For the State government this includes the Queensland Government Chief Procurement Office within the Department of Public Works. This office, amongst other things manages the ongoing refinement of guidance material released through the Queensland Government Marketplace and the Better Purchasing Guides. This includes the provision of a one stop shop approach to procurement guidance and process support. There procurement guidance material is listed below.

Category	Guidance Material
Procurement process guidance	<p>Procurement planning</p> <ul style="list-style-type: none"> <li>• Demand analysis in Planning for significant procurement</li> <li>• Supply market analysis</li> <li>• Options analysis in Relational procurement options – Alliance and early contractor involvement contracts</li> <li>• Reverse auctions</li> <li>• Planning for significant procurement</li> <li>• Quality assurance</li> <li>• International trade obligations and government procurement</li> <li>• Integrating sustainability into the procurement process                             <ul style="list-style-type: none"> <li>- Procurement Planning</li> <li>- Demand analysis</li> <li>- Supply market analysis</li> <li>- Options analysis</li> <li>- Plan for significant procurement</li> </ul> </li> </ul> <p>Supplier engagement</p> <ul style="list-style-type: none"> <li>• Engaging and managing consultants and contractors</li> <li>• Revised definition for Consultants &amp; Contractors</li> <li>• Specifying requirements</li> <li>• Intellectual property in procurement</li> <li>• Inviting offers</li> <li>• Prequalifying suppliers</li> <li>• Evaluating offers in purchasing</li> <li>• Negotiating agreements</li> <li>• Industrial issues in supplier selection and management</li> </ul> <p>Managing supply arrangements</p> <ul style="list-style-type: none"> <li>• Managing and monitoring suppliers' performance</li> <li>• Disposal of surplus government assets</li> <li>• Integrating sustainability into the procurement process:                             <ul style="list-style-type: none"> <li>- Managing supply arrangements</li> <li>- Performance monitoring</li> <li>- Review and closure</li> </ul> </li> </ul>

Category	Guidance Material
Corporate procurement planning guidance	<ul style="list-style-type: none"> <li>• Corporate procurement planning</li> <li>• Developing agency procurement procedures</li> <li>• Developing skills in purchasing</li> <li>• Building government procurement capabilities</li> <li>• Aspirational capability matrix for government procurement practitioners and professionals</li> </ul>
Supporting guidance and resources	<ul style="list-style-type: none"> <li>• Complaints management</li> <li>• Ethics, probity and accountability in procurement</li> <li>• Value for money</li> <li>• Best practice guide for ICT procurement</li> </ul>
Relevant policies	<ul style="list-style-type: none"> <li>• Capital Works Management Framework</li> <li>• Government Building and Construction Contracts Structured Training Policy 10 per cent Training Policy</li> <li>• ICT SME Participation Scheme</li> <li>• Indigenous Employment Policy for Queensland Government Buildings and Construction Contracts</li> <li>• Information and Communication Technology (ICT) Procurement Framework</li> <li>• Leasing in the Queensland Public Sector</li> <li>• Local Industry Policy</li> <li>• Main Roads Project Delivery System</li> <li>• Maintenance Management Framework</li> <li>• Project Assurance Framework</li> <li>• Quality Assurance Policy</li> <li>• Relevant information standards, including IS13 ICT Procurement</li> <li>• Schedule C of the State Procurement Policy</li> <li>• Value for Money Framework</li> </ul>

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## **APPENDIX B    Key risks and treatment strategies**

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Ref	VfM category	Description of risk	Possible treatment strategy
1	Transparency	Due to the number of projects there may not be adequate transparency regarding VfM for each project	A <u>common reporting structure</u> which allows projects to be reported on individually if necessary, with aggregation on an agency or type of project basis, will enhance transparency.
2	Efficiency	The Authority imposes unreasonable levels of 'red-tape' on funding recipients	<u>Existing or 'business as usual' processes</u> used by funding recipients will be used to deliver projects unless it is identified that this will not optimise VfM outcomes, for example, where work may be bundled to achieve efficiencies or economies of scale.
3	Effectiveness	Funding recipients do not have capability or capacity to manage VfM on this scale	The Authority will assist funding recipients to procure appropriate capability and capacity. A State wide approach, if practicable, will also allow leveraging of bulk purchasing power and existing systems to improve VfM.
3	Efficiency	Not using economies of scale to advantage	Common procurement approach for some items (e.g. DTMR's buying power)  Whole of state programming perspective to enable smoothing and consolidation of projects
4	Effectiveness	Price escalation due to high demand and associated supply chain constraints	Whole of state resource smoothing approach (to be considered)  Extend program to 3 years?  Industry consultation regarding demand for similar works e.g. LNG and roads
5	Effectiveness	The Authority not perceived to add value to existing procurement programs	Prioritisation at a local level  Detailed prioritisation of reconstruction works, determining appropriate reconstruction solutions and optimised procurement methodology will be conducted at a local level by LGAs.  They will utilise existing stakeholder engagement frameworks to ensure input from local councils, industry, and the community.  To ensure consistency of approach, The Authority has also developed an overarching Communications and Engagement Plan.
6	Efficiency	Administration overheads will exceed benchmark norms	The Authority will establish <u>price benchmarks</u> and monitor them accordingly.
7	Effectiveness	Outcomes not delivered to required standards	Works will be delivered where possible through <u>competitively tendered processes</u> managed through business as usual processes. If competitive outcomes can not be achieved, mitigation methods such as independent estimates and/or price benchmarking will be used.

Ref	VfM category	Description of risk	Possible treatment strategy
8	Effectiveness	Value for Money is not measured adequately across the program	<p>The delivery of the program will be subject to the procurement and governance processes currently in place within funding recipient organisations, which should be highly developed and, through competitive processes, focused on the achievement of value for money outcomes.</p> <p>The Authority will <u>utilise the skills of independent auditors/estimators where necessary</u>, to assess and ensure VfM outcomes.</p>
9	Efficiency	Inflated prices, particularly where competition is limited	<p><u>Comprehensive current and historic benchmarking of road restoration costs</u> is maintained within the Program Development Division of TMR in addition to its retained regional knowledge base.</p> <p>The cost of restoration of the road network under NDRRA will be continually compared against TMR's current and historical benchmarks for capital and maintenance programs, to ensure that there is no loss in value through the implementation of the program.</p> <p>For other works, <u>price benchmarks</u> will be established and form part of the VfM assessment for all applications.</p>
10	Efficiency	Broad diversity of contractor engagement models causes inefficient administrative processes	Use existing – where necessary provide consistent guidance to smaller funding recipients
11	Transparency	Perception that complaints are not dealt with appropriately	Independent complaints management process to ensure interested parties have opportunity to escalate if local management is not satisfactory.

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## **APPENDIX C Existing VfM approaches and representative standard contracts**

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### **C1. DEPARTMENT OF TRANSPORT AND MAIN ROADS**

#### C1.1 Overview

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## **C1. DEPARTMENT OF TRANSPORT AND MAIN ROADS**

DTMR as an organisation has an extensive track record in the successful development and delivery of projects across the state. It has the ongoing responsibility for the management of the state road network.

DTMR utilises a well established project management system, "OnQ", complemented by a similarly well developed system of project development, decision making and delivery, the Main Roads Project Delivery System (MRPDS).

OnQ and the MRPDS are explained in further detail below.

DTMR has developed an extensive body of documentation to support its program and project management functions.

The MRPDS was previously presented in 3 volumes, but volume 3 has now been superseded by the National prequalification system:

- Volume 1 – selection of appropriate project delivery options
- Volume 2 – tendering for major works
- National Prequalification System (NPS).

This information is detailed at Section C1.1, below.

### **C1.1 Overview**

#### **C1.1.1 National Prequalification System**

As of 1 January 2011 a new National Prequalification System (NPS) has come into effect. This system was developed on behalf of Austroads, by a working group of relevant authorities across the country, including DTMR. This new system has been developed specifically to harmonise existing prequalification systems.

#### **C1.1.2 OnQ Project Management Framework**

OnQ is the project management framework of the Department of Transport and Main Roads. The aim of the framework is to ensure that the department has the project management capability to successfully deliver projects. The framework consists of policies, principles, project governance, methodology, templates, tools and project support.

Project management focuses on achieving results through managing opportunities and risks, managing stakeholders and making the best use of resources. It seeks to ensure that each project will deliver outcomes that are consistent with organisational policy and strategic objectives.

The OnQ project management framework seeks to improve project delivery capability and performance. It does this through promoting:

- communication with project stakeholders
- solutions that increase stakeholder satisfaction and benefits realisation
- an understanding of the bigger picture and the project's part in it

- identification and appropriate management of opportunities and risks
- planning of the total project life-cycle before committing resources
- improved reliability in estimating costs and benefits
- a team approach to problem-solving
- a focus on reviewing and improving processes.

The framework establishes fundamental principles to achieve consistency in project management. It details a methodology that can be tailored to any nature or size of project. It specifies the roles and responsibilities of the key players, including approval processes, and offers tools, techniques and templates to assist those working on the project.

This site proposes that projects be established using the project governance model and then managed, as per the project methodology, by completing the appropriate templates.

OnQ focuses on achieving results through managing opportunities, risks and making the best use of resources. It seeks to ensure that the outputs from each project will deliver outcomes that are consistent with departmental objectives and government policy.

The OnQ project framework and this website are reviewed on an ongoing basis, incorporating organisational learnings and application of the latest practice with regard to project management.

### **C1.1.3 Main Roads Project Delivery System (MRPDS)**

The MRPDS is utilised by those who have the responsibility for ensuring that value for money is obtained in the delivery of a project. The aim of MRPDS is to provide guidance for the procurement of works including:

- developing the best delivery strategy
- how tenders should be called, compiled and assessed
- who should be eligible to tender.

The MRPDS was previously presented in 3 volumes, but volume 3 has now been superseded by the National prequalification system:

- Volume 1: selection of delivery options – This provides guidance in developing an appropriate delivery strategy for the implementation of road infrastructure projects. It describes the various delivery types and provides a means to narrow the range of options. It also provides guidance in the partnering process. Partnering is an important tool used in aligning relationships in contracts to facilitate their smooth running.
- Volume 2: tendering for major works – This addresses the question of how tenders can be called, processed and assessed and evaluated for different delivery options.
- National Prequalification System (NPS) – As of Jan 1, 2011 NPS has come into effect. This system was developed on behalf of Austroads, by a working group of relevant authorities across the country, including DTMR. This new system has been developed specifically to harmonise existing prequalification systems. DTMR's MWPD has been updated to reflect the new NPS.

The MRPDS includes specific procedures to consider the range of delivery models to determine the optimal based on the individual needs of the project. The specific delivery approaches considered within the MRPDS include:

- Traditional contract – schedule of rates
- Design & Construct (D&C)
- Document and Construct – design novation
- Design, Construct and Maintain (DCM)
- Managing Contractor
- Alliance Contracting
- Cost Reimbursable Performance Incentive (CRPI)
- Public Private Partnership (PPP)
- Build Own Operate Transfer (BOOT)

Within the MRPDS a number of standard contract approaches are set out to form the basis of these delivery models. These standard contracts include:

- Standard Contract Provisions Roads
  - Road Construction Contract (RCC) – the RCC conditions of contract are based on the Australian Standard AS2124 1992 published by Standards Australia.
  - Roadworks Performance Contract (RPC) – the RPC also utilises conditions of contract based on the Australian Standard AS2124 1992 published by Standards Australia
  - Minor Works Contract System (MW) – The Conditions of Contract that applies to this contract is the AS 4905 - 2002 Minor Works Contract Conditions published by Standards Australia except where supplemented by the Supplementary Conditions of Contract (form C6996) and Annexure to Contract Conditions - Minor Works (form C6994).
  - Design and Construct Contract (D&C)
  - Alliance Contract (AC)
- Road Maintenance Performance Contract (RMPC)

Other delivery methods that Main Roads may use from time to time include:

- Public Private Partnerships
- Build Own Operate Transfer
- Design, Construct and Maintain.

A brief outline of these standard approaches is available is shown below. While some of these approaches are unlikely to be utilised for reconstruction activities (PPP, BOOT, etc) they are included here for completeness.

#### **C1.1.4 Road Construction Contract (RCC)**

The RCC is the traditional form of contract and is the most used in Main Roads. The RCC is the major contract let in open competition. Under an RCC, the contractor undertakes to complete the construction phase of a project. Main Roads will have already prepared a detailed design and project documentation.

To be eligible to bid on an RCC and other major contracts, tenderers are required to be on the department's pre-qualified list of approved contractors.

Pre-qualified contractors are invited to submit competitive tenders for work. The successful contractor is selected based on price, or a combination of price and non-price selection criteria. Contractors can employ sub-contractors and suppliers for some parts of the work, with the contractor assuming liability for the work of the sub-contractors and suppliers.

The General conditions of contract are based on the Australian Standard AS2124 1992 published by Standards Australia. Amendments have been made, where necessary, to conform to the specific requirements of the department and Government legislation.

This type of contract uses a superintendent to administer the contract and value payment claims. The superintendent is required to implement the contract in a fair and impartial manner. A departmental officer or consultant may be used in this role.

For relatively straight forward projects, there is less effort required by bidders responding to this type of delivery arrangement than other methods of delivery. Partnering and relationship management have been increasingly used to enhance this type of contract.

Where there are time constraints, large numbers of unknowns, opportunities for innovation, or a high degree of complexity, other forms of contract may be more appropriate.

#### **C1.1.5 Roadworks Performance Contract (RPC)**

The RPC is the basis for undertaking road infrastructure works on a sole invitee basis with Local Government or RoadTek.

The department's construction and scheduled maintenance works are normally subject to open market competition. The exceptions are:

- when the viability of a local community is threatened if the local workforce is not continuously engaged in employment
- in the absence of an adequately developed private contractor market for the size and type of project concerned
- construction by local government or RoadTek is preferred as a lower cost/risk management strategy.

Under RPCs, a contractor's risk is limited to risks associated with:

- plant and labour utilisation and efficiencies
- construction management and supervision deficiencies
- estimating risk – estimating the true costs of a project is shared by the principal and contractor, with the outcome of the risk dependent on the negotiation
- risks allocated in contractor documentation – for example, clean up or site decontamination
- wet weather delays (other than abnormal wet weather).

The department bears the following risks:

- damage to completed work by wet weather where the contractor takes appropriate precautions
- delay costs associated with wet weather, but subject to mitigation by the contractor
- latent conditions (physical conditions on the site or its surroundings).

#### **C1.1.6 Minor Works Contract (MW)**

A Minor Works Contract is used for a construct-only project of a simple nature and of limited monetary value and low risk. These are not used for complex, long-term projects.

Examples of their use include small capital works, combined capital and maintenance projects, and rehabilitation and programmed maintenance, such as:

- minor intersection works including traffic signal installations
- installation of noise management devices
- installation of guardrails
- roadside landscaping.

Risks vary due to estimated cost/duration, and variability in the type, scale, complexity and number of construction activities.

The Conditions of Contract that applies to this contract is the AS 4905 - 2002 Minor Works Contract Conditions published by Standards Australia except where supplemented by the Supplementary Conditions of Contract (form C6996) and Annexure to Contract Conditions - Minor Works (form C6994).

Under a D&C, the owner contracts with a single entity that is responsible for both design and construction. Thus the contractor employs the designer through external consultants, or designs "in house".

The advantages of a D&C include:

- reducing cost and time through the contractor having input into the constructability of the design
- relative certainty of price by having the constructor prepare and take responsibility for its own quantities, rates and lump sums
- a single line of responsibility for the design and construction phases, rendering it unnecessary to distinguish between defects in design and defects in construction
- reduced claims and disputes by eliminating the interface between the owner-employed designers and contractors under a traditional contract.

Main Roads recognises that there can be considerable investment required in the preparation of D&C tenders including a significant demand on resources from multiple design and construction organisations. In a tight labour market other forms of delivery such as the ECI may be more suitable.

### **C1.1.7 Alliance**

An alliance contract is an agreement between two or more entities that undertake to work cooperatively on the basis of sharing project risk and reward, to reach agreed outcomes. Alliances take a team approach and are based on principles of good faith and trust. Parties involved agree on the target cost estimate for the project.

A Board is established to manage the contract with membership from each of the entities involved in the project. The Board is the decision making and managerial body, and participants relinquish any entitlements to legal or equitable courses of action against any other participants, except in situations of wilful default or possible insolvency.

A two-stage tender process is a feature of alliances, with an initial intensive period of relationship development. The preferred party is selected before the price is bid. Evaluation criteria are developed to ensure clear justification of value for money in the selection process.

Alliance contracts are characterised by proactive collaboration and strong relationships with all involved, working towards optimum project outcomes and minimisation of the conflicts and disputes sometimes associated with a traditional contract. By working together, risk is embraced, uncertainty is dealt with, and flexibility allows for issue resolution.

A feature of alliance contracts is a 'no disputes' clause, where partners agree not to use arbitration or litigation as a disputes resolution technique.

Main Roads undertakes alliance contracts in situations such as:

- complexity and volatility of projects and their environment
- the need for state-of-the-art technology as well as the need for research and development
- the scope of the project cannot easily be defined
- time constraints dictate fast-tracking of the project is required
- substantial interfacing with existing infrastructure and interested organisations/ stakeholders.

Alliances are effective where a strategy of embracing risk is more appropriate than transferring risk. The department's alliance contracts have a strong emphasis on probity, and a probity auditor/ advisor is a key feature of all contracts. The department has recently updated their alliance contracts to reflect the updated Alliance Guidelines that have been developed for the Inter-Jurisdictional Alliancing Steering Committee.

### **C1.1.8 Early Contractor Involvement (ECI)**

Main Roads introduced ECI in November 2005 with the calling for tenders of a pilot project, the Maroochy River Bridge Duplication. Construction is now underway, with the deck poured on two spans. Project delivery is well ahead of schedule.

ECI is best described as a negotiated Design and Construct (D&C) contract. The contractor, together with the contractor's designer, can be engaged as early as immediately after a project business case has been prepared.

ECI was developed for current market conditions (increased infrastructure programs across transport, water and mining sectors in particular, and a very tight technical skills market). This was

done principally to gain the benefits of a D&C approach, and to reduce the significant resource requirement of D&C projects during the tender phase.

Contractors are selected through a non-price selection process, similar to, but shorter than, a project alliance. The emphasis is on the calibre and experience of the proposed team.

An ECI is a single contract with two stages. Both stages are heavily partnered as a specific contract requirement. Stage 1 is similar to an interim Project Alliance Agreement. During Stage 2, the contractor works under a service agreement with the client. The contractor develops the design to a point where it can be accurately priced; risks are identified and apportioned for Stage 2 (these are reflected in the price).

Payment for Stage 1 is by agreed rates on a time basis. Stage 1 is a fully open-book process and involves an independent estimator and probity and financial audits. There is significant input from Main Roads into the design, risks and pricing. Stage 1 finishes with the contractor submitting a Stage 2 offer.

The Stage 2 offer includes a risk-adjusted price for the agreed design and agreed risk allocation; the contract can be varied through a Deed of Variation for Stage 2. Main Roads has the right to terminate should agreement not be reached, and tender the works.

Stage 2 is similar to a D&C contract. During Stage 2 the contractor completes the design and constructs the works. Payment can be through lump sum, schedule of rates or day works components, depending on the risk profile. This is similar to the detailed design and construction phase of a D&C.

Main Roads takes on the role of contract administration and surveillance.

The ECI approach has many benefits. It allows flexibility for Main Roads to novate its designer to the contractor at the beginning of the contract. This caters for advanced maturity of the design that may have been necessary for business case development. Other benefits include:

- shortened delivery time
- constructability
- reduced tender costs
- fewer variations during construction
- no surprises through good communication and understanding of the project by all parties
- increased opportunity for innovation.

#### **C1.1.9 Design, Construct and Maintain (DCM)**

Under a DCM, the contractor undertakes the design and construction of a project, and then assumes responsibility for maintaining the built structure for a significant period of time.

The difference between this form of contract and the traditional form relates to the maintenance and defects liability period.

Under a DCM, maintenance (during and after construction) and defects liability of the completed works remains the responsibility of the constructor for an extended period (up to 10 years). This is

governed by strict performance standards before being handed over to Main Roads. Contractors supply.

#### **C1.1.10 Public Private Partnerships (PPP)**

PPPs can provide real benefits in terms of value for money, outcomes in the construction and ongoing delivery of transport infrastructure.

PPPs are considered for Queensland Government public infrastructure projects where the net present value of the strategic priority will exceed \$100 million over the term of the contractual relationship.

PPPs have a number of project delivery options and risk is allocated efficiently between the public and private sectors. The underlying principle is that individual risks should be borne by the party best able to manage these. For the private sector, risks are associated with:

- design and construction of infrastructure
- availability or performance (and possibly demand)
- long-term maintenance
- technology
- financing.

PPP features include:

- value for money, through efficient allocation of risk
- innovation and flexibility
- delivery of new infrastructure which might not otherwise be available, efficiently and effectively.

#### **C1.1.11 Build Own Operate Transfer (BOOT)**

BOOT involves the private sector in the provision of new infrastructure. Private consortiums can finance and construct infrastructure, with the consortium owning, operating and carrying end-user risk.

The consortium operates the infrastructure for a time period under a concession or franchise awarded by the government, and derives revenue from this arrangement. At the end of the concession/ franchise period, ownership is transferred to the government. The BOOT method features long-term maintenance of infrastructure. This method is used when a revenue source is available, independent of government revenue.

## **C1.2 Example Contracts**

DTMR has developed a comprehensive body of documentation to support its program and project management activities. These documents can be found at <http://www.tmr.qld.gov.au/Business-and-industry/Technical-standards-and-publications.aspx>.

### **C1.2.1 NDRRA Performance Incentive Cost Reimbursable Works Contract**

This document is currently in draft format but can be supplied on request.

### **C1.2.2 Road Construction Contract**

These General conditions of contract are based on the Australian Standard AS2124 1992 published by Standards Australia. Amendments have been made, where necessary, to conform to the specific requirements of the department and Government legislation.

The Road Construction Contract (RCC) is the major roadworks contract let in open competition.

#### ***General Conditions of Contract***

The General Conditions of Contract are based on the Australian Standard AS2124.

#### ***Supplementary Conditions of Contract***

Examples of Supplementary Conditions of Contract can be found using the following links:

- [Supplementary Conditions of Contract - C6838 \(PDF, 205.8 KB\)](#)
- [Supplementary Conditions of Contract - Annexure C6839 \(PDF, 158.1 KB\)](#)
- [Supplementary Conditions of Contract for use outside the RIFA restricted area \(PDF, 20.7 KB\)](#)
- [Supplementary Conditions of Contract for use within the RIFA restricted area \(PDF, 34.2 KB\)](#)

### **C1.2.3 Roadworks Performance Contract**

The Roadworks Performance Contract (RPC) is the basis for undertaking road infrastructure works on a sole invitee basis with Local Government or RoadTek.

Examples can be found using the following links:

- [Part 2: General Conditions of Offer - 6014 \(PDF, 40.2 KB\)](#)
- [Part 4: General Conditions of Contract - C6830.RPC \(PDF, 215.5 KB\)](#)
- [Part 5: Supplementary Conditions of Contract - C6838.RPC \(PDF, 173.7 KB\)](#)
- [Part 5: Expert Determination Agreement - C6030 \(DOC, 114.5 KB\)](#)

#### **C1.2.4 Minor Works Contract**

This document provides information to deal with open market contracts using open tender and quotations processes and also a performance based version for use in sole invitee contracts with RoadTek and local government. Relationship management continues to be a feature in this document.

##### ***General Conditions of Contract***

The Conditions of Contract that applies to this contract is the AS 4905 - 2002 Minor Works Contract Conditions published by Standards Australia except where supplemented by the Supplementary Conditions of Contract (form C6996) and Annexure to Contract Conditions - Minor Works (form C6994).

The system associated with open market contracts is termed in this document as 'Minor Works'. The system for sole invitee contracts is termed 'Minor Works Performance Contract'. Several forms are attached in the document for the use in Minor Works contracts. Some of these forms are common for both open market and sole invitee contracts. However, these forms were developed mainly for open market contracts.

##### ***Supplementary Conditions of Contract***

Examples of Supplementary Conditions of Contract can be found using the following links:

- **Minor Works Open Market Contracts (MW):**
  - [General Conditions of Tendering: Minor Works - C6993 \(PDF, 42.3 KB\)](#)
  - [Supplementary Conditions of Contract: Minor Works - C6996 \(PDF, 75.2 KB\)](#)
- **Minor Works Performance Contract (MWPC):**
  - [General Conditions of Tendering: MWPC - C6993.MWPC \(PDF, 32 KB\)](#)
  - [Supplementary Conditions of Contract: MWPC - C6996.MWPC \(PDF, 79.4 KB\)](#)

## C2. LOCAL GOVERNMENT AUTHORITIES

Local government authorities in Queensland are required under legislation to carry out their activities in an efficient and effective manner. Section C2.1 below provides a cross section of local authority policies. Local government vary widely in size and capacity, resulting in a wide variety of approaches that have been adopted to meet their obligations. In particular, arrangements have been established to allow smaller councils the benefits of economies of scale, purchasing power and project support through intermediaries. These are discussed at section C2.2.

### C2.1 Procurement approaches

#### Legislative and regulatory obligations

- Local Government Act 2009
  - Legislative requirement for s106 Sound contracting principles.  
*The sound contracting principles are—*
    - (a) value for money; and
    - (b) open and effective competition; and
    - (c) the development of competitive local business and industry; and
    - (d) environmental protection; and
    - (e) ethical behaviour and fair dealing.*Specific requirements for monitoring and process for remedial action if required*
  - Sets up planning, reporting, accounting and audit requirements
- Local Government (Finance, Plans and Reporting) Regulation 2010 has specific instruction about contracting process (Chapter 4 Contracting)
- Auditor-General Act 2009 has specific provision to conduct annual financial audit and performance audits as required on all State agencies and local authorities
- Local Government is a statutory body for the Statutory Bodies Financial Arrangements Act.
- Check and balances are embedded into current practice

#### C2.1.1 Banana Shire Council

Example of procurement approach can be found using the following link:

- [Banana Shire Council - Procurement Policy](#)

#### C2.1.2 Brisbane City Council

Example of procurement approach can be found using the following link:

- [Brisbane City Council - Procurement Manual \(Aug 2009\)](#)

## **C2.2 Intermediaries assisting local government authorities**

Local government vary widely in size and capacity, resulting in a wide variety of approaches that have been adopted to meet their obligations. In particular, arrangements have been established to allow smaller councils the benefits of economies of scale, purchasing power and project support through intermediaries.

### **Local Buy**

Local Buy is the LGAQ's procurement service, established in 2001 to aggregate the buying power of local government, shorten procurement timeframes and streamline the interaction of business and local government.

Local Buy supports procurement in local government through six main service disciplines:

- Local Buy Contract Services – Access real dollar savings through 40 established purchasing arrangements for goods and services used by councils
- Local Buy Energy Services – Energy procurement advice and services for local government
- LG tender box – Simplify your tender processes through an online tendering portal
- The Procurement Guide – Standard documentation for procurement for all local government
- Managed Tender Services – Outsourced tendering services for Queensland councils
- Procurement Training Services – Specifically tailored to your council's purchasing requirements

Local Buy is a company that was established in 2001 to provide comprehensive, value adding procurement services to councils and government entities. The company is a commercial entity that is wholly owned by the LGAQ.

Local Buy's core business is the creation of contractual arrangements for goods and services that are used by councils and government entities, aggregating the demand for these goods and services to achieve better pricing and conditions, and eliminating the need for councils and government entities to establish their own supply contracts.

### **Local Government Infrastructure Services (LGIS)**

Local Government Infrastructure Services Pty Ltd (LGIS) is a joint initiative of the Local Government Association of Queensland and Queensland Treasury Corporation. The initiative was developed to address a need within local government for assistance in evaluating and delivering infrastructure in a cost effective and efficient manner.

LGIS has developed a Service Delivery Model to assist local governments to accurately capture costs and undertake civil works that are eligible for Natural Disaster Relief and Recovery Arrangements (NDRRA) funding when responding to natural disasters. The Model has been designed to:

- provide an alternative voluntary option to local governments in accessing NDRRA funding
- assist local governments to meet the requirements of the NDRRA guidelines, and
- accelerate local governments' access to eligible funding, human resources, plant, equipment and materials for the restoration and replacement of damaged essential public assets.

At Councils' request, LGIS is available to:

- prepare a comprehensive damage assessment for a list of essential Council owned public assets, as nominated by Council, that may be eligible for funding under the current NDRRA guidelines
- draft an application for NDRRA ('NDRRA Funding Application Form') on Council's behalf
- develop a comprehensive scope of works for the civil works components of the restoration/replacement works
- assist in the procurement of private sector civil contractors (if required) to restore or replace the damaged essential public assets, and/or
- draft funding claims for NDRRA funding on Council's behalf.

### ***Possible Scope of Work***

LGIS has established a multidisciplinary team of technical advisors, including (but not limited to) an Engineering Consultant, a Quality Assurance Consultant and a Delivery Managing Contractor (together the 'NDRRA Consultants'), to work collaboratively to assist councils to meet their requirements under the NDRRA.

Together the NDRRA Consultants offer a range of complementary competencies, knowledge and business acumen. The NDRRA Consultants possess skills and expertise in infrastructure damage assessment, cost estimation and project planning and management, building design, process engineering, mechanical engineering, and civil and structural engineering. The Delivery Managing Contractor also has a tested network of certified sub-contractors which the Delivery Managing Contractor can engage on your behalf, so that Councils can have only one delivery contract in place if desired.

LGIS retain and manage the NDRRA Consultants on behalf of participating councils on condition that all NDRRA Consultants' costs and expenses will be borne by those councils, for inclusion where appropriate in project costs for NDRRA support.

### ***Assessing damage, securing funding and preparing to approach the market***

Following receipt of Council's high level advice of the extent and location of infrastructure damage, LGIS can act as the lead on this Project and can:

- provide the NDRRA Consultants with relevant packages of work
- regularly liaise with the NDRRA Consultants to monitor their progress, costs, issues and quality of work
- advise Council on Project progress, and
- provide completed and quality assured funding application(s) and claim(s) for submission by Council.

### ***Delivering recovery and replacement projects***

Councils may also require immediate assistance to access civil contractors able to execute 'emergency' or 'emergent' recovery works

Once the above activities are completed, councils may also require assistance to (again) access civil contractors able to execute agreed scope of works (i.e., less urgent but important recovery projects).

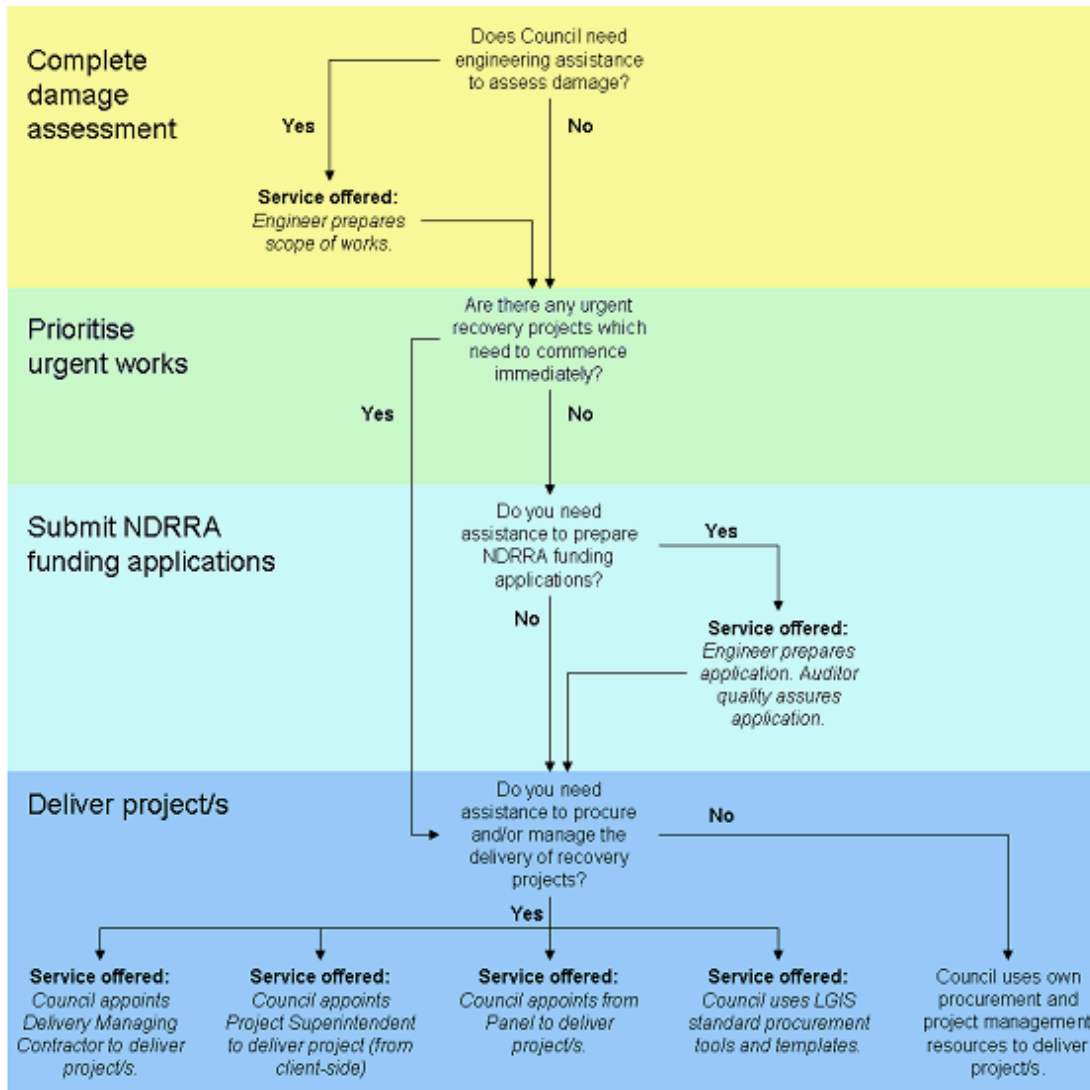
Two key service offerings are available to councils to assist in this area:

1. Delivery Managing Contractor

Under this model, LGIS organises a council’s engagement of an industry leader/expert in infrastructure delivery projects. This essentially translates to the appointment of the Delivery Managing Contractor.

2. Standard LGIS Procurement Advisory Services

Under this model, LGIS can provide councils with a list of civil contractors, or available panels based on region, requirements and availability. Councils can then source their preferred contractors from this list, using their own procurement resources and executing their own contract/s with the works contractor/s.



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## **APPENDIX D Procurement Options Analysis**

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## **Procurement Options Analysis – Alternatives considered**

In the development of this preferred procurement approach a number of alternatives were given due consideration. In general terms the preferred approach was selected as it provided the best likelihood of a value for money outcome while also offering the best likelihood of a timely and efficient response.

Some of the principle alternatives that were considered include:

- Centralised procurement by QldRA
- Direct appointment of private sector managing contractors
- QldRA to prescribe procurement approach
- Complete hands off approach.

A brief synopsis of these options is presented below.

### **Centralised procurement by QldRA**

This approach would see QldRA take over control of all of the reconstruction projects and establish internal capability to directly manage the procurement of services to complete each project.

It was considered that this approach would generate significant organisational complexity as it would require the establishment of a significant temporary organisational procurement capability within QldRA. This newly established procurement team would then need to establish effective and efficient procurement processes to generate confidence that a value for money outcome can be achieved. This team would need to spend significant time and energy gaining the level of local knowledge and experience already contained within local authorities and experienced State agencies.

As a result it was viewed that centralised procurement could potentially provide a timely response but to achieve a value for money outcome using this model was likely to result in significant delays while the procurement team got up to speed.

### **Direct appointment of private sector managing contractors**

This approach would see the QldRA appoint a number of significant private sector organisations as managing contractors to manage the procurement and construction of sections of the program of work. The sections could be determined by a combination of asset class and geography.

This approach utilises the private sector contract management expertise to provide confidence that a value for money outcome will be achieved. It does however raise a number of significant challenges around effective scoping, fitness for purpose verification and long term asset management. With significant work to be undertaken in remote and regional areas there is a significant challenge associated with the ability to effectively align the project outcomes with the local community expectations and the local industry capability. Deploying a senior managing contractor with overall responsibility may create an extra layer of effort over and above the experienced procurement and delivery personnel on the ground in the local areas. An alternative outcome would see the contractor not utilising the local knowledge and as a result struggle to achieve efficient and effective project outcomes.

As a result it was viewed that the imposition of a managing contractor would create additional complexity in effectively scoping and managing works within the ongoing responsibility of the local authorities and state agencies resulting in a reduced likelihood of achieving a value for money outcome.

### **QldRA to prescribe procurement approach**

This approach would see the QldRA centrally determine the best procurement approach and contracting model to be used for each project. This would see local authorities or state agencies identify the needs of the project and then pass to QldRA the task of determining procurement approach and contracting model.

This approach could allow for centralised contracting documents and consistent approaches across the State. It would also provide increased transparency for contracting approach as it would all be managed by QldRA.

This approach bypasses the existing checks and balances that exist within the experienced procurement agencies that have day to day responsibility for the assets that need to be reconstructed. While this approach would create the appearance of transparency it significantly undermines the concept of accountability because it separates decision making and ownership. It could create a situation where the QldRA takes over a major element of project delivery and significantly increases the risk that the procurement approach and contract approach may not meet the needs of the local authority, the local conditions of the project or the capabilities of the local market.

As a result it was viewed that this approach failed to effectively take advantage of the wealth of procurement experience within local authorities and state agencies and increases the risk of ineffective procurement. As such it was considered that this approach was likely to offer a reduced likelihood of value for money across the program.

### **Complete hands off approach**

This approach would see QldRA conduct the initial funding assessment and then leave the procurement and delivery to agencies unsupported. This approach would reduce the overheads associated with central monitoring and support from QldRA. It would however result in significant additional complexity for local authorities to coordinate their activities where appropriate. It would also increase the likelihood of inefficient market behaviours as councils competed with each other for resources.

As a result it was viewed that this approach was unlikely to deliver a value for money outcome across the program.

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## **APPENDIX E      State Procurement Policy**

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State Procurement Policy can be found using the following link:

- [Queensland State Procurement Policy - September 2010](#)