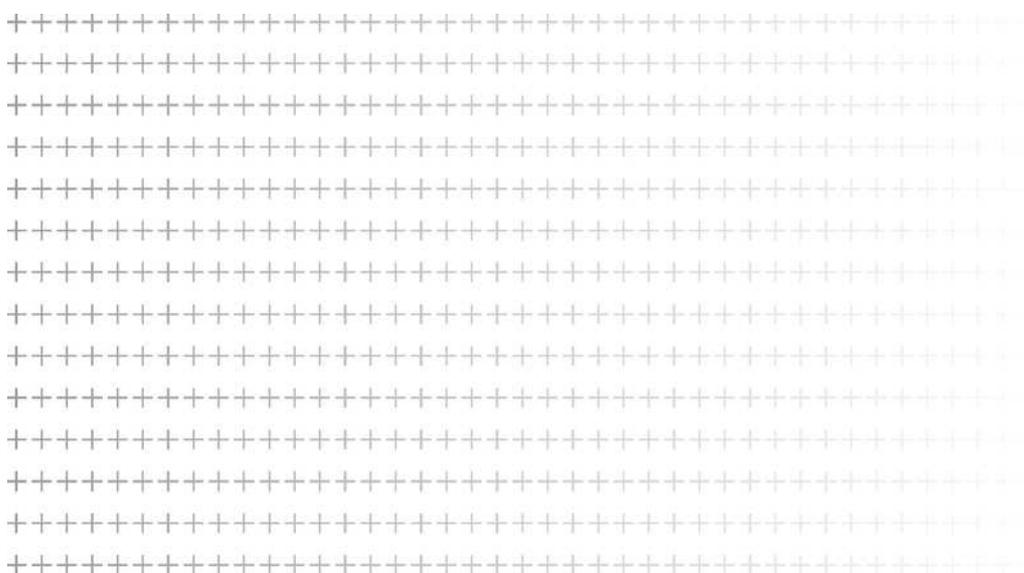


Alternative Business Models Review Summary Report

Prepared for
Far North Queensland Regional Roads Group

April 2010



ABOUT LGIS

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 works towards ensuring that the best value for money is achieved for local governments in infrastructure provision. This is achieved by improved bargaining power, increased economies of scale and the collective knowledge of Queensland's local governments.

Each project is approached in a consultative, flexible manner, and our services and advice are tailored to meet each council's individual needs—without taking control of the process.

LGIS can assist with any infrastructure project and specialises in water, waste management, roads, property, remote community support, general commercial advice and environment and planning. Our key services include design and implementation of infrastructure solutions, project assurance reviews, commercial advisory services, and financial risk advisory services.

LGIS has proven itself to be a regional collaboration implementation partner of choice for local government, delivering a number of regional infrastructure programs on behalf of large groups of councils, and the State.

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1 EXECUTIVE SUMMARY

1.1 Background

In June 2008, the Roads Alliance published a consultation paper which served as a catalyst for discussion on the potential business operating model alternatives that may be possible between the Department of Transport and Main Roads (DTMR) and local government when managing the State’s road networks.

The Roads Alliance then selected Far North Queensland Regional Road Group (FNQRRG) to assess various business operating models, encouraging the FNQRRG to select the most appropriate option for a pilot.

1.2 Project approach

FNQRRG engaged Local Government Infrastructure Services (LGIS) to undertake an independent review of the current business approach and processes adopted by FNQRRG. The project involved a multi-phased approach that included an options analysis of potential management structures and operating models that could be implemented with a view to improving and optimising the FNQRRG’s strategic business approach, capability and stewardship responsibilities.

This document summarises the approach and results of the review, noting the support secured to date for one of the alternative business models considered. It is intended to be circulated amongst FNQRRG members for final ratification and future reference.

1.3 Project outcomes

An Alternative Business Model which extends the term of existing arrangements between DTMR, member councils and RoadTek as well as delivering an *expanded* suite of services at a regional level through a Program Management Office (PMO) has emerged as the preferred operating model for pilot (Model 4).

The review process undertaken to arrive at the alternative business model proposed above, and in conjunction with the FNQRRG, the following key outcomes were achieved:

- Established a Project Steering Committee (PSC) to provide an interface with stakeholders.
- Undertook a survey to obtain and validate feedback from the FNQRRG Chief Executive Group (CEO Group) and FNQRRG Technical Committee (TC) members.
- Reviewed the FNQRRG’s current operational frameworks and key project drivers, identifying risks and capability impediments.

- Developed and evaluated five alternative business models
- Identified Model 4 as the emerging preferred business model for pilot.
- Identified key change, risk areas and mitigation strategies specific to Model 4.
- Prepared a preliminary cost/benefit analysis for Model 4 based on the information provided by FNQRRG.
- Developed, and in March 2010 confirmed, a framework mapping out the potential tasks needed to undertake the due diligence, pilot and implementation phases for Model 4.

1.4 Business operating models considered

As part of the Alternative Business Model Review, in comparison to a status quo approach of continuing to develop the Group’s capability through existing TC functions, the Group investigated five alternative business models, three as suggested by the Roads Alliance, and two further hybrid models:

- New Business Model 1: Extended Regional Delivery Contracts
- New Business Model 2: Road Management and Delivery Partnerships
- New Business Model 3: Regional Road Stewardship / Road Franchising
- New Business Model 4: Hybrid – Model 1 with Program Management Office (PMO) , and
- New Business Model 5: Hybrid – Model 1 with PMO and ‘consolidated funding bucket’.

Based on the Review, the Group has endorsed Model 4 as the preferred operating model for pilot.

1.5 Key attributes of Model 4

Model 4 includes extending the term of existing arrangements between DTMR, member councils and RoadTek, as well as delivering an *expanded* suite of services at a regional level through a Program Management Office (PMO). Establishing a PMO will provide the Group with the opportunity to develop efficiencies of scale and scope by taking on an expanded role in the management and delivery of a wider range of works programs (on behalf of councils).

A PMO is a centre of expertise set up to provide an organisational focus on improving the management of projects, programs and portfolios. The key difference between programs and projects is that programs are ongoing (and are designed to deliver outcomes) whereas projects have specific end dates (and are designed to deliver outputs).

To establish a Model 4 approach, FNQRRG needs to:

- identify existing contracts and contracting parties
- identify and agree optimal contract terms and duration
- identify expanded works program¹
- agree funding and escalation arrangements
- agree performance measures and recourse, and
- agree contracting structure and formalise contract terms and deliverables.

The establishment of a Model 4 framework also requires the transition of the FNQRRG’s current *Technical Coordinator* role into the PMO. This could be best achieved using a staged approach.

For example, in Stage 1², existing services delivered by the *Technical Coordinator* plus new priority services could be delivered by the PMO. These priority services could include a new centralised data repository, new reporting mechanisms, asset management planning and new joint purchasing programs.

In Stage 2, further value add activities could be delivered through the PMO, such as additional project delivery, coordination and scheduling services, new training services and more joint procurement programs in new product categories.

In Stage 3, further consolidation could occur with further resource sharing and asset management activities.

1.5.1 Cost/benefit analysis

A cost/benefit analysis was undertaken to explore and demonstrate the potential range of costs and benefits achievable by the FNQRRG should a PMO be established (i.e. comparing expected savings against expected costs incurred to achieve the savings).

Based on a number of key efficiency, joint purchasing and cost assumptions, in the first stage, FNQRRG may realise benefits of between \$8 and \$17 for every dollar spent on establishing and maintaining the PMO. In the second and third stages, FNQRRG may realise benefits of between \$4 and \$9 for every dollar spent on maintaining the PMO.

¹ Expanded works program to potentially include: TIDS (Roads Alliance, Other Base, Bikeways, SafeSt, Capability Development, ATSI, and Blackspot), RMPC, RPC, Minor Works and NDRRA programs.

² Please see Attachment F - PMO activities and deliverables and timelines



If FNQRRG opts to comprehensively expand its suite of JP&RS opportunities, then tangible savings could potentially reach:

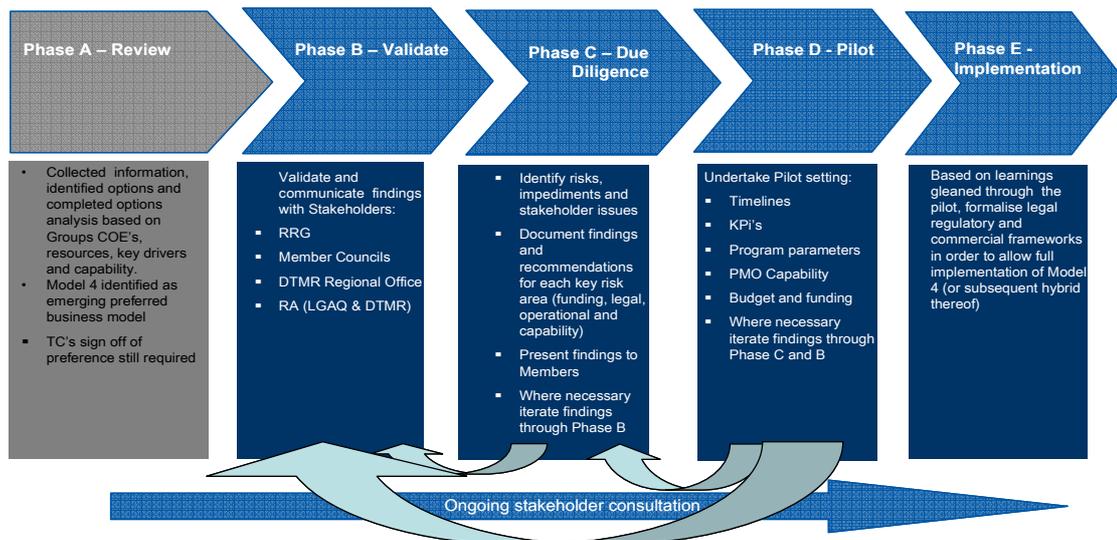
- \$1.1M and \$2.5M in the first stage
- \$1.6M and \$3.4M in the second stage, and
- \$2.2M and \$4.4M in the third stage.

1.6 Next steps

FNQRRG is poised to decide whether to proceed to a pilot for Model 4.

If members and stakeholders ratify that Model 4 (and its associated cost and benefits structure) still represents the best available alternative model, then the project can proceed into Due Diligence, Pilot and Implementation phases as detailed below. Please see section 5 -Next steps and recommendations, for further details.

Figure 1: Project delivery map



1.6.1 Due diligence activities

Subject to TC and CEO Group endorsement, the due diligence associated with Model 4 is likely to require:

- a legal perspective – undertake due diligence of proposed model
- an affordability perspective – prepare PMO budget
- a funding perspective – secure stakeholder contributions
- a governance perspective – prepare PMO business plan and timelines
- a stakeholder perspective – seek stakeholder consensus and establish agreed PMO Charter, and
- a contract perspective – agree terms and scope, and approach market for PMO provider.

1.6.2 Pilot and implementation activities

Subject to TC and CEO Group endorsement, the pilot and implementation of Model 4 is likely to require:

- a management perspective – establish PMO structure
- a reporting perspective – develop process for management, tracking and issue resolution
- a staffing perspective – identify resources, and
- an administration perspective – develop systems and processes.

The due diligence, pilot and implementation phases may require a financial contribution from key stakeholders, these funds may need to be sourced from:

- TIDS capability funding
- member contributions
- Roads Alliance, and/or
- DTMR.

2 INTRODUCTION

2.1 Context

Established in 2002, the Roads Alliance is a voluntary partnership between DTMR and local government to improve skills and efficiency and to jointly manage a defined road network known as Local Roads of Regional Significance (LRRS). Presently the LRRS network is approximately 31,000km in road length.

Under the Roads Alliance, councils voluntarily form RRGs with DTMR District/s, to jointly manage the LRRS within their collective boundaries. The FNQRRG is one example of these RRGs. The FNQRRG comprises³:

- DTMR (Far North Region)
- Cairns Regional Council
- Cassowary Coast Regional Council
- Cook Shire Council, and
- Tablelands Regional Council.

More information on the Roads Alliance, RRGs and road stewardship is available in Appendix A.

In recent times, the Roads Alliance has sought to transfer substantial decision making authority for the LRRS network to RRGs, whilst promoting a collaborative and regional focus on:

- investment strategy development
- works programming
- asset management, and
- joint purchasing and resource sharing (JP&RS).

Many RRGs, including the FNQRRG, have identified that current operating arrangements may need to shift to accommodate some of these collaborative strategies. The Roads Alliance selected FNQRRG to assess various business operating models, encouraging FNQRRG to select the most appropriate option for a pilot.

³ Wujal Wujal Aboriginal Shire Council is an observer to the Group. Wujal Wujal's participation in the pilot, should one proceed, would need to be formalised.

This document summarises the approach and results of the review, noting the support secured to date for one of the alternative business models considered. It is intended to be circulated amongst FNQRRG members for final ratification and future reference.

2.2 Project approach

FNQRRG engaged LGIS to undertake an independent review of the current business approach and processes adopted by FNQRRG. The project involved a multi-phased approach that included a current status review and an options analysis of potential management structures and operating models that could be implemented with a view to improving and optimising the FNQRRG’s strategic business approach, capability and stewardship responsibilities.

A PSC supervised the options analysis, with survey information and feedback readily provided by the CEO Group and TC. Each option was assessed in terms of its impact on asset data management, reporting, safety, resourcing, program delivery and planning, training, administration and secretariat services.

At a workshop held on 5 and 6 November 2009, the Group assessed each alternative business model using evaluation criteria as outlined overleaf (and in Appendix B):

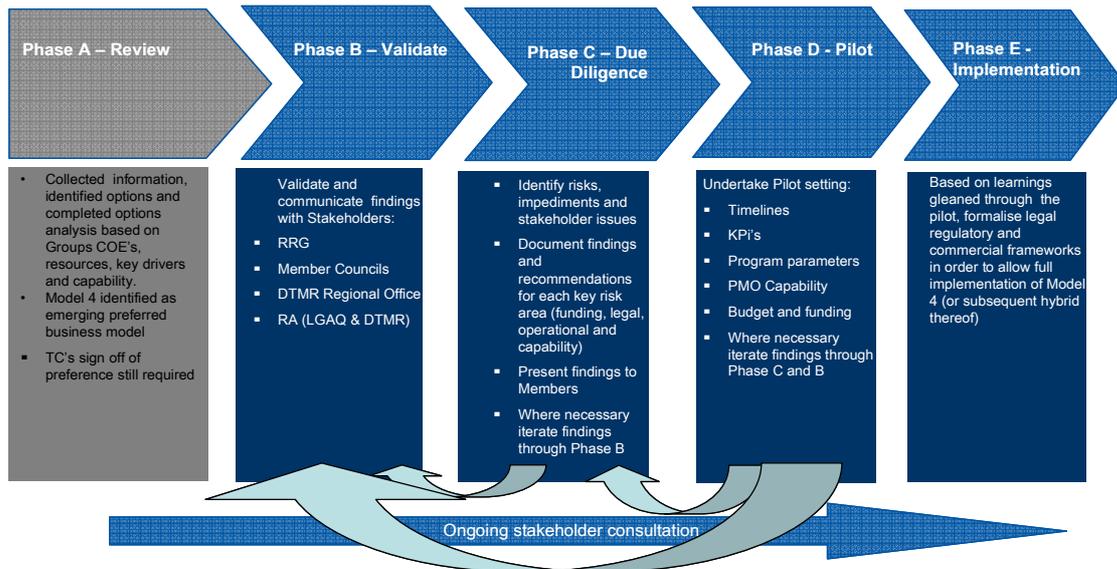
Table 1 – Alternative Business Model (ABM) assessment criteria

ASSESSMENT CRITERIA	QUESTIONS
Scope and scale	Does the ABM achieve or improve the Group’s economies of scale and scope?
Ownership and control of assets	Does the ABM materially alter ownership or control of assets and risk?
Funding arrangements	Would the ABM improve access to funds and streamline claims processes?
Legal issues	Does the ABM materially change (i.e. increase) the Group’s legal risk profile?
Governance issues	Would existing governance structures support the proposed ABM framework? If not, what changes would be required?
Capability and capacity	Does the Group and Stakeholders have the necessary capability and capacity to successfully implement and maintain an alternative framework?

Based on the analysis conducted, one model emerged as the Group’s preferred alternative business model. It was seen as the framework that best addressed the Group’s capability, priorities and strategies. At the November workshop, it was agreed that more detailed information on this model (including a cost/benefit analysis) would be provided for the Group’s consideration and analysis.

In March 2010, the Group attended a workshop to discuss the additional information and to ratify the findings of the cost/benefit analysis and consider the steps to be taken to undertake a Model 4 pilot. The diagram below provides a pilot implementation framework.

Figure 2: Project delivery map



2.3 Current operations, constraints and key drivers

The Group's current policies, procedures and frameworks as adopted generally support road stewardship outcomes. The Group did, however, identify a number of issues that constrain capability and delivery of optimal road stewardship outcomes.

These issues include:

- limited staff resources
- the Group's large land areas and distances between member councils' boundaries
- complex operational frameworks
- inadequate communication, and
- complex policies and procedures.

Together, these issues can further constrain the Group's ability to adhere to policies and procedures, reduce the Group's overall capacity and capability and inhibit communications and data sharing within and beyond the Group's boundaries.

Implementing a new (or refined) operating model for the Group may assist in addressing some of these issues. However, any operating model selected must reflect the Group’s key project drivers, which have been identified by members as follows:

- Address resource needs.
- Improve stewardship outcomes and delivery capability.
- Achieve best value for money from available resources.
- Comply with DTMR revised Transport Infrastructure Development Scheme (TIDS) policy requirements.
- Meet the objectives of the Group’s investment strategy as described in the Group’s Statements of Intent (SOI) for each LRRS link.
- Achieve the capability levels described in the Group’s Capability Agreement and Action Plan.

In addition, feedback received from the Group during the Alternative Business Model Review identified further requirements for the new (or refined Business Model):

- Flatten the Group’s organisational structure.
- Reduce the number of TIDS categories available⁴.
- Improve communications amongst members and between RRGs.
- Combine works programs (amongst members and current non-members⁵).
- Streamline funding flows (amongst members).

Members envisaged that an operating model with such attributes could:

- reduce the number of decision points
- improve approval and claims processes
- reduce administration time and effort
- improve potential for increased funding
- improve program scale and scope outcomes, and
- improve cash flows.

⁴ New TIDS categories effective 1 July 2010, refer Appendix C.

⁵ For example, combine works programs between council members and non-member Aboriginal Shire Councils.



2.4 Alternative business models considered

As shown in the table overleaf, the five models considered included three stand alone options (originally suggested by the Roads Alliance), and two hybrid models (devised by FNQRRG after extensive stakeholder consultation):

Table 2 – Alternative business models

MODEL	DESCRIPTION
<ul style="list-style-type: none"> ▪ Model 1 Extend Regional Delivery Contracts 	<p>Extend the term of existing arrangements between DTMR (as road owner), and local governments and RoadTek (as road delivery providers).</p>
<ul style="list-style-type: none"> ▪ Model 2 Road Management and Delivery Partnerships 	<p>Road owner (DTMR) works in a contractual partnership with other road management and/or delivery providers (local governments, RoadTek and Private Sector).</p>
<ul style="list-style-type: none"> ▪ Model 3 Regional Road Stewardship / Road franchising 	<p>Package a selection of road stewardship functions and contract that package out to a new legal entity for a specified period. New entity then contracts out works.</p>
<ul style="list-style-type: none"> ▪ Model 4 Model 1 with Program Management Office (PMO) 	<p>Extend the term of existing arrangements together with delivery of works managed through a Program Management Office (PMO). Expand the range of works programs in line with ongoing capability to include TIDS, RMPC, RPC, minor works and NDRRA.</p>
<ul style="list-style-type: none"> ▪ Model 5 Model 1 with PMO and Consolidated Funding Bucket (CFB) 	<p>Extend the term of existing arrangements with delivery of works through a PMO and funding managed through a central treasury function and consolidated funding bucket (CFB).</p>

More information on each model is included in Appendix D.

3 MODEL 4 EXPLAINED

This section provides details on the key considerations and implementation issues associated with the Group’s transition from its current operational model to an alternative business model involving extended contracts terms with DTMR and program delivery through a PMO.

3.1 Extended regional delivery contracts

The Extended Delivery Contracts approach looks to extend the term (e.g. up to 10 year contracts) of existing arrangements between DTMR (as road steward), local governments and RoadTek (as road delivery providers), on the basis that road delivery services are provided at regional level.

3.1.1 Implementation steps

To implement the extended regional delivery component of Model 4, the following implementation steps are required:

- identify existing contracts and contracting parties
- agree pricing, funding and escalation arrangements (including indexation of agreed rates)
- agree performance measures and recourse for involved parties (including work quality, timings and dispute resolution)
- agree structure (i.e. the entity) that will sign contract/s on behalf of members.
- establish the PMO through Charter⁶
- agree operational, management and governance arrangements⁷, and
- formalise contract terms and deliverables.

3.2 PMO operational arrangements

A PMO is a centre of expertise that will provide the Group with organisational focus on improving the management of its projects, programs and portfolios. The PMO will look to improve resource management across the Group by implementing governance, communications programs and collaboration tools.

⁶ This can be achieved by the Group establishing a PMO sub-group and delegating responsibilities to it. It may need to involve the delegation of existing technical committee responsibilities to the PMO.

⁷ This can be achieved by the Group contracting some or all of its responsibilities to the PMO.



Program management is the process of managing several related projects, often with the intention of improving an organisation's performance. Programs deliver outcomes but projects deliver outputs (successful projects deliver safely, on time, to budget and to specification). Program management is concerned with doing the right projects delivering long term improvements to the Group.⁸

The PMO should be established within the existing Group framework. To come into effect, the PMO would need to be delegated the necessary authority by members. Delegation of tasks and responsibilities will be required given that the PMO will be taking on elements of LRRS management and stewardship functions that would normally be the responsibility of member councils and the TC.

3.2.1 Role of the PMO

The range of services to be provided by the PMO on behalf of the Group should include the following:

- Develop and maintain standard project management tools, templates, policies, procedures and guidelines.
- Manage, identify and evaluate members' works programs using the Group's prioritisation tool.
- Facilitate approvals of members' works programs for inclusion in DTMR's Roads Implementation Program (RIP).
- Develop Group capability⁹, through:
 - + program management
 - + asset management
 - + JP&RS activities and programs, and
 - + safety initiatives.
- Provide project management services, technical advice, guidance and information proactively within and beyond Group boundaries (as appropriate).
- Procure and deliver services across the Group.
- Collate Group information and maintain a central data repository.
- Develop scale and scope efficiencies by linking related projects and dealing with multiple projects across members' work programs.
- Share lessons learned from individual and regional projects (either informally or formally).

⁸ The key difference between a program and a project is the finite nature of a project. A project must always have a specific end date else it is an ongoing program. A program is ongoing and implemented within a business to consistently achieve certain results for the business. *Program* Management Offices generally have a larger scale and impact than most project efforts. The outcomes of a PMO's efforts can have a significant impact upon business and organisational viability and efficiency. *Project* Management Offices, on the other hand, generally get involved in the planning, directing, and controlling of specific resources usually with relatively short-term objectives in mind.

⁹ FNQRRG is required to meet the DTMR's revised TIDS policy stated requirements and timelines relating to program development, asset management, JP&RS and road safety.



- Seek new and innovative opportunities to enhance Group’s ability to meet road stewardship responsibilities.
- Seek new advocacy opportunities to enhance Group’s bargaining, lobbying and decision making power in the region and Statewide.

3.2.2 Expansion of works programs

Establishing a PMO will also provide the Group with the opportunity to develop efficiencies of scale and scope by taking on an expanded role in the management and delivery of a wider range of works programs (on behalf of councils).

Over time, the PMO may develop the capability, in addition to delivering the Group’s current TIDS responsibilities, to take on some or all of the following programs:

- TIDS, including:
 - + Roads Alliance
 - + Other Base
 - + Bikeways
 - + SafeSt
 - + Capacity Development
 - + ATSI, and
 - + Blackspot programs
- RMPC
- RPC
- Minor Works, and
- NDRRA programs.

3.2.3 Alignment with existing governance arrangements

The Group’s governance and operational arrangements are described in Part 1 and 2 of its Constitution.

Part 1 of the Group’s Constitution details the role of the Group. This role includes establishing, adopting and introducing strategies, practises and procedures that improve capability and delivery of road stewardship responsibilities.

Part 2 describes the Group’s operational arrangements and details the Group’s authority to establish sub-groups and delegate responsibility to these sub-groups (including responsibility for the set up of the Group’s Technical Committee).

Subject to independent legal verification, the PMO could be established as a sub-group to the FNQRRG. This may require an amendment to the Group’s Constitution.

Part 3 of the Group’s constitution details the role of the Technical Committee. This role includes advising and supporting the Group, program and project management, identification and prioritisation of projects and implementing the Roads Alliance’s capability requirements.

The Group’s Constitution – Part 5, states that the Constitution may be altered or amended by resolution. The resolution would require the approval of 75 per cent of members with due notice of the resolution being given to members through distribution of the Group’s meeting agenda.

More information on governance issues is provided in Appendix E.

3.2.4 Implementation steps

To implement the PMO component of Model 4, the following implementation steps are required:

- undertake feasibility study to define goals, key performance indicators and timelines
- prepare charter
- define roles and responsibilities
- develop organisation structure
- identify, establish and/or train staff
- identify location/equipment/other requirements
- develop communications and integration strategies
- develop project criteria/review/prioritisation strategies, and
- define management and reporting processes.

3.2.4.1 PMO implementation timelines and deliverables

The Group has identified a range of tasks to be undertaken by the PMO. These deliverables, as detailed in Appendix F include those tasks currently completed by the Group’s TC / Technical Coordinator role.

The expansion of this role (into a PMO framework) should occur in a staged manner, as suggested below¹⁰:

¹⁰ Implementation timelines and prioritisation of tasks to be confirmed by the Group.



Table 3 – PMO implementation timelines (by task)

STAGES	DELIVERABLES – BASED ON THE TASKS IN APPENDIX F
Services currently provided by Technical Coordinator	Tasks: 4, 7, 8, 9, 10, 11, 12, 13, 14, 21, 22, 23, 24, 27, 29, 30, 46, 47, 48, 49, 50, 51, 52, 56, 63, 64, 65, 66, 67, 68 and 69.
Services provided in Stage 1	Take on the following tasks: 1, 2, 3, 4, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41 and 42.
Services provided in Stage 2	Take on the following tasks: 5, 14, 15, 16, 17, 18, 19, 20, 25, 26, 27, 28, 34, 43, 44, 45, 53, 54, 55, 57, 58, 59, 60, 61 and 62.
Services provided in Stage 3	Take on the following tasks: 6, 34, 54 and 55.

3.3 Expected key changes

Implementing Model 4 will require changes in selected key areas. A summary of these changes areas is provided in the table overleaf:

Table 4 – Key changes required to implement Model 4

KEY CHANGE AREA	KEY CONSIDERATIONS
New requirements	<ul style="list-style-type: none"> ▪ Extend the term of existing arrangements between DTMR (as owner), local governments and RoadTek (as road delivery providers). ▪ Delegate technical coordination responsibilities to PMO.
Road stewardship / ownership	<ul style="list-style-type: none"> ▪ No change to existing arrangements. ▪ Local Government responsible for Local Government roads. ▪ DTMR responsible for state-controlled roads. ▪ Roads Alliance continues to delegate responsibility for LRRS to RRGs.
Road delivery	<ul style="list-style-type: none"> ▪ Implement extended regional delivery contracts (up to 10 years) to facilitate forward planning, encourage strategic partnerships, improve communications, encourage economies of scale, and to assist with administrative efficiency. ▪ Implement PMO arrangements to enhance delivery capability.
Funding arrangements	<ul style="list-style-type: none"> ▪ Access funds at agreed rates or long term rates with escalation arrangements based on indexation of agreed rates (as sole invitee). ▪ Meet operational costs through members' contribution as well as TIDS / capability funding.
Risk profile	<ul style="list-style-type: none"> ▪ No change to existing risk profile i.e. <ul style="list-style-type: none"> + Road delivery providers retain delivery risk for quality of works undertaken. + DTMR as road steward retains investment and project standard risks. ▪ PMO's operational capacity and capability.
Capability and capacity Requirements	<ul style="list-style-type: none"> ▪ JP&RS activities expanded through long term and strategic partnerships. ▪ PMO addressing Group's capability, capacity and resourcing constraints.

Based on these key changes, the primary advantages and disadvantages of the model begin to emerge.



3.3.1 Advantages and disadvantages of implementing Model 4

A summary of some of the advantages and disadvantages of implementing Model 4 is provided below, with further details available in Appendices G and H:

Table 5 – Advantages and disadvantages of implementing Model 4

ASSESSMENT CRITERIA	ADVANTAGES	DISADVANTAGES
Scope and scale	<p>Group</p> <ul style="list-style-type: none"> ▪ Provides greater financial certainty and revenue stability. ▪ Enables investment in better delivery technology and systems. ▪ Generates employment stability. ▪ Provides greater scope to identify subcontracting opportunities. ▪ Improves staff attraction. ▪ Improves delivery efficiency. ▪ Allows resources to be deployed regionally to optimise work distribution. <p>DTMR</p> <ul style="list-style-type: none"> ▪ Reduces administrative costs. ▪ Generates efficiencies in scale of work and regional workforce planning and drives supplier innovation. ▪ Allows single contract cover all activities (if desired). ▪ Allows negotiation on level of responsibility for different activities (if desired). ▪ Improves cash flow planning. 	<p>Group</p> <ul style="list-style-type: none"> ▪ May cause Local Government staff to work further away from base to perform regional level road delivery. ▪ May require higher skill levels, which require upfront costs. <p>DTMR</p> <ul style="list-style-type: none"> ▪ May cause disruption if arrangements fail. ▪ May need to provide additional guidance on what ‘should be’ delivered. ▪ May reduce statewide programming due to longer term commitments in place. ▪ May be a difficult change to implement (from a cultural perspective).
Ownership and control of assets	No impact.	No impact.
Funding arrangements	Promotes longer term funding certainty which may improve access to State and Federal funding.	Requires a longer term commitment to funding, reducing flexibility.
Legal issues	Unlikely to require any major changes in implementation.	

ASSESSMENT CRITERIA	ADVANTAGES	DISADVANTAGES
Financial issues	<p>Group</p> <ul style="list-style-type: none"> ▪ Encourages more flexibility on payment options. ▪ Reduces contract administration costs, overheads and start-up costs due to use of longer term contracts. ▪ Achieves cost savings and better unit costs through RS&JP. <p>DTMR</p> <ul style="list-style-type: none"> ▪ Gives greater program certainty. ▪ Encourages value for money outcomes 	<p>Group</p> <ul style="list-style-type: none"> ▪ If a fixed program delivery fee is used, Local Government may carry an increased risk of a loss over a longer period. ▪ If increased operational costs eventuate (in the short term), these will require funding by members. <p>DTMR</p> <ul style="list-style-type: none"> ▪ Longer period contracts may reduce flexibility. ▪ Inflation may impact on the sustainability of arrangements. ▪ Cost escalation may result in a reduced program being delivered. ▪ Contribution to operational costs may be required to support structure.
Capability and Capacity	<p>Group</p> <ul style="list-style-type: none"> ▪ Improves employment stability through long term contract. ▪ Improves capability, asset management outcomes and scale and scope opportunities. ▪ Expands JP&RS initiatives. <p>DTMR</p> <ul style="list-style-type: none"> ▪ Generates stable delivery arrangements. ▪ Provides long term access to regional resources. ▪ Promotes growth in roads delivery resources (via greater market stability). ▪ Achieves value for money outcomes. 	<ul style="list-style-type: none"> ▪ Capability to administer extended arrangements by Group, members and DTMR required. ▪ Capability to administer and operate a PMO required by Group.

3.3.2 Risks

Implementing a new business model also requires consideration of risk. The table below describes the key risks and mitigation strategies associated with Model 4:

Table 6 – Risk profile associated with Model 4

KEY RISK AREAS	DESCRIPTION OF RISK	MITIGATION
Funding	<ul style="list-style-type: none"> ▪ Funding support is not forthcoming from stakeholders. ▪ Operational overheads exceed stakeholders' capacity. 	<ul style="list-style-type: none"> ▪ Obtain stakeholder funding support pre implementation. ▪ Prepare budgets.
Legal	<ul style="list-style-type: none"> ▪ Regulations within Local Government Act affect implementation. ▪ Existing regulations impede implementation. 	<ul style="list-style-type: none"> ▪ Undertake legal and regulatory due-diligence.
Operational	<ul style="list-style-type: none"> ▪ Implementation does not meet stakeholder expectations and / or timelines. ▪ Cost overruns occur. ▪ JP&RS initiatives do not achieve expected savings. 	<ul style="list-style-type: none"> ▪ Ongoing management and development of KPIs and processes. ▪ Obtain suitably skilled resources
Capability	<ul style="list-style-type: none"> ▪ Councils are unwilling or unable to change to accommodate new arrangements and responsibilities. ▪ DTMR is unable to accommodate new arrangements. 	<ul style="list-style-type: none"> ▪ Obtain member support for change and commitment to meet responsibilities. ▪ Obtain DTMR's support for change and commitment to meet responsibilities.

Independent legal and financial advice should be sought by the Group before piloting any alternative business structure, including Model 4.

The Local Government Association of Queensland (LGAQ) and DTMR have advised that they believe there are no impediments within current legislative arrangements which would restrict local governments and/or DTMR implementing any of the three possible delivery models suggested by the Roads Alliance¹¹.

¹¹ Source – The Roads Alliance Consultation Paper June 2008, Managing Queensland's Roads – Can Main Roads and Local Government Do It Better Together?

3.3.3 Other considerations – funding and affordability

The Group will need to assess the affordability of implementing and operating Model 4 and quantify project implementation and ongoing operational costs. Once a capital and operational budget has been prepared, the Group should ensure that appropriate funding is available, with the Group seeking funding from:

- TIDS capability funding (up to 3 per cent of funding is able to be allocated)
- member contributions
- Roads Alliance, and
- DTMR.

The affordability analysis should entail:

- quantifying current expenditure (before implementation of the Model 4 Pilot)
- quantifying costs to establish and operate Model 4 – i.e. based on service levels nominated
- estimating the funding gap and timings, i.e. level of additional funding required to fund Model 4
- identifying opportunities to meet funding gap, and
- identifying ways to moderate the rollout and/or services if sufficient funding cannot be obtained.

Some of these issues have been explored in the cost/benefit analysis conducted for Model 4. Refer Section 4 for more details.

3.3.4 Other considerations – reporting and management

The process for management, tracking and resolution of issues, changes and risks must be established. This should include information gathering and reporting, a means for defining when these events have occurred, escalation paths, reporting and the means for resolution and mitigation.

Reporting options for the PMO may include reports to:

- FNQRRG
- FNQRRG Model 4 Pilot Steering Committee
- FNQRRG TC
- member councils, and
- Far North Queensland Regional Organisation of Councils (FNQROC).

4 MODEL 4 KEY COSTS AND BENEFITS

4.1 Context

If FNQRRG elects to pilot and/or implement Model 4, there are a number of key costs and potential benefits which will need to be considered.

A cost/benefit analysis was undertaken to explore and demonstrate the potential range of the costs and benefits achievable by the FNQRRG should a PMO be established (i.e. comparing savings against the costs incurred to achieve the savings).

As part of the analysis, FNQRRG identified the following potential key savings areas:

- internal savings
- joint purchasing
 - + Group programs¹²
 - + products (over 20 products identified)
- resource sharing, and
- the NDRRA program¹³.

Appendix I includes further details on products identified as JP&RS opportunities.

As part of the analysis, FNQRRG identified the following potential key cost areas:

- administration costs, and
- Program Manager’s costs.

These benefits and costs were then inputted into a series of spreadsheets to determine the potential range of the net potential financial benefits available to FNQRRG should it proceed with a pilot and implementation of Model 4.

¹² Includes RMPC, RPC, Blackspot, Other, RRG TIDS, base TIDS and SafeST TIDS.

¹³ The Group decided to not include the financial impact of resource sharing and the NDRRA program in the cost/benefit analysis at this stage. The Group may consider updating the CBA at a later stage to assess the potential impact of these savings areas.

4.2 Benefits

4.2.1 Internal savings

The Cost\Benefit Analysis outlines the potential savings achievable by each member Council arising from a number of tasks being provided by the PMO that would otherwise have to be undertaken by each member. The potential savings are based on the assumption that the PMO has the potential to centralise data and processes and therefore release council staff from undertaking these RRG related tasks.

4.2.2 Joint purchasing – Group programs

The Cost\Benefit Analysis outlines the potential benefits accruing from savings generated from joint purchasing initiatives on the current expenditure on Group Programs with the PMO Model. The Cost\Benefit Analysis illustrates the outcomes associated an incremental 2.5 per cent efficiency improvement each year with efficiencies rising to 7.5 per cent of the Group Program by Stage 3.

4.2.3 Joint purchasing – products

The Cost\Benefit Analysis outlines possible joint purchasing opportunities, which could be implemented in Stages 1, 2 or 3 to gain savings. For immediate opportunities (bitumen and asphalt reseal), it estimates a 5 per cent efficiency benchmark (low range savings) and a 15 per cent efficiency benchmark (high range savings). For immediate and longer-term opportunities (i.e. the 22 product categories currently identified, as well as bitumen and asphalt reseal), it estimates a 5 per cent efficiency benchmark (low range savings) and a 15 per cent efficiency benchmark (high range savings).

4.2.4 Resource sharing and NDRRA program

For the purposes of demonstrating the potential benefits of establishing a PMO the financial benefits of the NDRRA program and resource sharing initiatives have not been included in the Cost\Benefit Analysis at this stage. The FNQRRG should consider collating the relevant data and assessing the effect of these inputs through the Cost\Benefit Analysis particularly given the potential magnitude of the NDRRA program each year.

4.3 Costs

4.3.1 Administration costs

The Cost\Benefit Analysis estimates the likely administration cost to member councils of receiving services through a PMO (excluding the professional services fees (i.e. the program manager’s costs) associated with the PMO).

Administration cost centres include:

- office, administration and sundry costs
- travel and ancillary expenses
- financial and reporting costs
- internet, email and phone expenses, and
- leases for office equipment.

4.3.2 Program manager’s costs

The Cost\Benefit Analysis estimates the likely effort (in hours per month) that the PMO will require to deliver services to member councils. It applies a standard per hour value to derive likely cost of providing these services in this way (excluding the administration costs outlined above).

4.4 Net tangible benefits

The transition to the proposed PMO arrangements could result in FNQRRG member councils generating a range of tangible benefits¹⁴. At this time the non-tangible benefits associated with a transition to proposed PMO arrangements have not been quantified, nor have potential resource sharing opportunities or efficiencies possible under the NDRRA program.

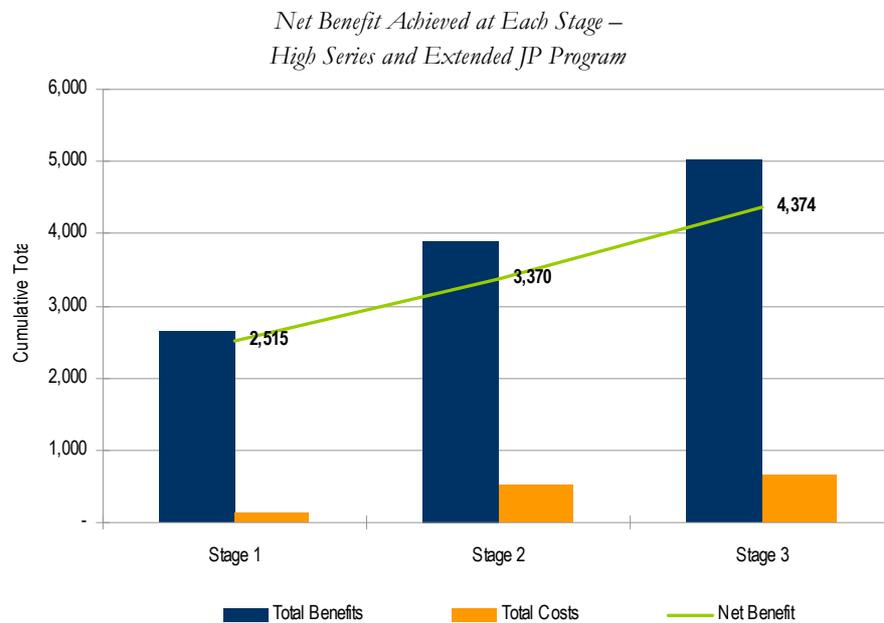
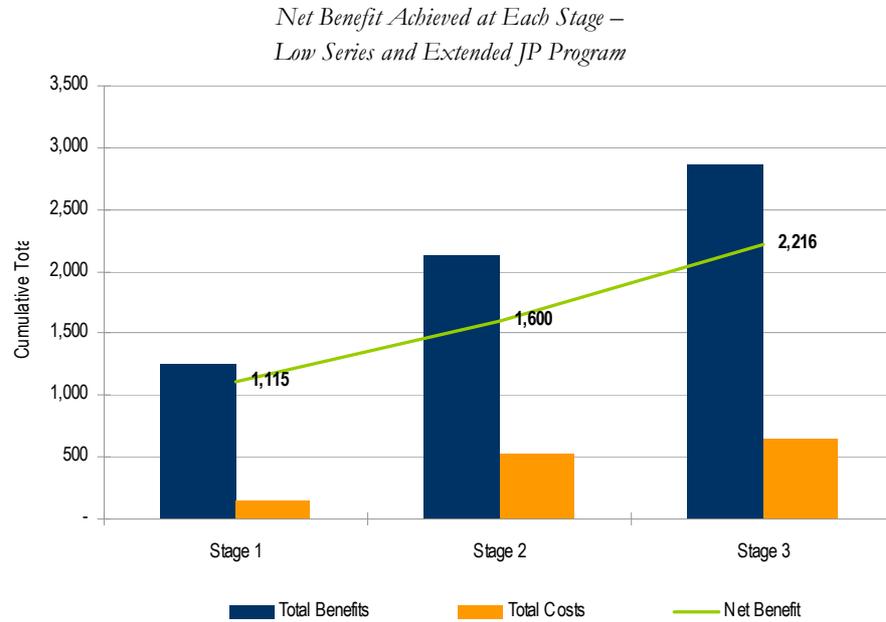
The graphs below illustrate the range of potential net tangible benefits attributable to the development of a PMO capability. The outputs generated by the Cost\Benefit Analysis are based on the following assumptions:

- savings accrue over three stages – Stages 1, 2 or 3
- joint purchasing opportunities are estimated based on a low and high range efficiency assumptions – 5 per cent efficiency benchmark for the low range savings and a 15 per cent efficiency benchmark for high range savings, and

¹⁴ Outputs current as at 15 April 2010 have been endorsed by the PSC in March 2010 at a workshop attended by the Group. The meeting discussed and ratified the outputs of the cost/benefit analysis and considered the steps to be taken to undertake a Model 4 pilot. Modelling outputs are subject to member endorsement of key costs, program values, benefits, joint purchasing opportunities and resource requirements and are included in **Appendix J**.

- longer-term opportunities include 22 product categories as well as bitumen and asphalt reseals.

Figure 3: Net benefits achievable through PMO structure – extended JP program



4.4.1 Key observations

Where an expanded suite of joint purchasing opportunities are pursued the FNQRRG could potentially accrue tangible savings and benefits of between (low and high series):

- \$1.1M and \$2.5M in the first stage
- \$1.6M and \$3.4M in the second stage, and
- \$2.2M and \$4.4M in the third stage.

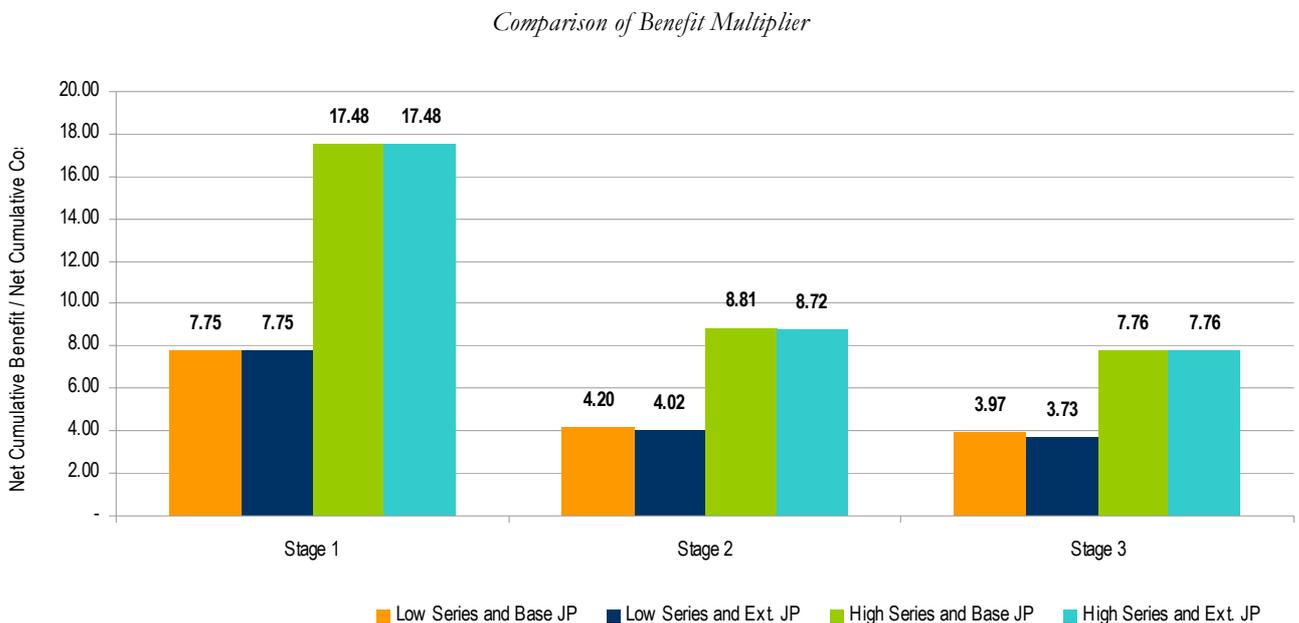
Where only immediate joint purchasing opportunities are pursued (asphalt and reseals only) the FNQRRG could potentially accrue tangible savings and benefits of between (low and high series):

- \$1.1M and \$2.5M in the first stage
- \$1.5M and \$3.0M in the second stage, and
- \$2.0M and \$3.6M in the third stage.

4.5 The Benefits Multiplier

The tangible benefits on a multiplier basis have been graphed below. The graph describes the relationship between each \$1 spent in operating the new business framework (i.e. PMO costs) and the net benefit earned thereon. For the purposes of this analysis this is known as the FNQRRG’s Benefits Multiplier.

Figure 4: Comparison of the benefits multipliers potentially achievable by the PMO



4.5.1 Key observations

The Group could achieve:

- a multiplier of between \$8 and \$17 per dollar spent in the first stage, when either immediate or an expanded suite of joint purchasing opportunities are pursued, and
- a multiplier of between \$4 and \$9 per dollar spent where an expanded suite of joint purchasing opportunities are pursued in stages 2 and 3 (the drop in the multiplier reflects the estimated additional costs needed to generate additional savings).

5 RECOMMENDATIONS AND NEXT STEPS

Implementing a new (or refined) operating model for the Group may assist in addressing some of the capability issues identified by FNQRRG stakeholders. However, any operating model selected must reflect the Group’s key project drivers.

Based on the analysis conducted, Model 4 emerged as the Group’s preferred alternative business model. It was seen as the framework that best addressed the Group’s capability, priorities and strategies. Model 4 represents a hybrid model comprising extended regional delivery contracts and the establishment and operation of a PMO.

FNQRRG is now poised to decide whether to proceed to a pilot for Model 4. If members ratify that Model 4 (and its associated cost and benefits structure) still represents the best available alternative model, then the project can proceed into Due Diligence, Pilot and Implementation phases.

If proceeding, FNQRRG should complete the following:

- Seek independent legal verification to ensure the PMO could be established as a sub-group to the FNQRRG. This may require an amendment to the Group’s Constitution.
- Seek more detailed (and independent) financial advice to ensure the PMO can be established in a manner which reflects value for money, seeking equitable contributions from relevant sources and/or stakeholders. This may include:
 - + assessing the affordability of implementing and operating Model 4
 - + more thoroughly quantifying project implementation costs
 - + more thoroughly quantifying ongoing implementation costs
 - + preparing a capital and operational budget
 - + seeking funding from source/s such as TIDS capability funding, member contributions, Roads Alliance and/or DTMR.
- Establish a process for managing, tracking and resolving issues, changes and risks. This may include:
 - + information gathering and reporting
 - + devising a means for defining when events have occurred
 - + devising escalation paths
 - + outlining reporting requirements, and
 - + outlining the means for resolution and mitigation.

APPENDIX A – ROAD STEWARDSHIP IN QUEENSLAND

Data Sourced from information published by Roads Alliance Consultation Paper June 2008 – based on data provided by DTMR – Roads Implementation Programs published in 2005, 2006 and 2007.

1 Road ownership / stewardship

Local and State governments have the legislative responsibility to steward their individual road networks. These respective responsibilities are provided for in the *Local Government Act 1993* and the *Transport Infrastructure Act 1994* and include:

- road construction and maintenance
- road corridor management
- road safety
- operation characteristics (load limits, traffic flow etc.), and
- road network enhancement.

Local governments must conduct their activities in accordance with the *Local Government Act 1993*. Section 901 of the Act, outlines local government’s broad control of roads as follows:

- A local government has control of all roads in its area.
- Control of roads includes capacity to take all necessary steps for:
 - + survey and resurvey of roads
 - + construction, maintenance and improvement of roads
 - + regulation of use of roads, and
 - + regulation of movement of traffic and parking vehicles on roads.

DTMR must conduct activities in accordance with the *Transport Infrastructure Act 1994* and *Transport Operations Road Use Management Act 1997*.

Legislative responsibilities for Queensland’s roads are summarised in the figure overleaf.



Legislative responsibility for Queensland's roads

DTMR responsibilities		Local Government responsibilities	
Auslink roads			
State strategic roads			
State regional roads			
State-controlled local roads of regional significance		Local government controlled local roads of regional significance	
		Other local government roads	

LRRS

2 Roads Alliance

Established in 2002, the Roads Alliance is a voluntary partnership between DTMR and local governments to improve skills and efficiency and to jointly manage the LRRS network (approximately 31,000 kilometres in road length).

Under the Roads Alliance, local governments voluntarily form RRGs with DTMR District/s, to jointly manage the LRRS within their collective boundaries. To support each RRG, technical personnel are sourced from the DTMR District/s and local governments that make up the RRG to serve in an advisory body known as a Technical Committee.

The Roads Alliance seeks to transfer substantial decision making authority for the LRRS network to RRGs and promotes a collaborative and regional focus on investment strategy development, works programming, asset management and JP&RS.

3 Road delivery

Both DTMR and local government deliver road works in Queensland by using the road delivery workforces of RoadTek, local government or the private sector. While the bulk of the DTMR construction program is contracted to the private sector, local government and RoadTek deliver a significant proportion of DTMR maintenance and minor works contracts, particularly in the regional and remote areas of the State.

Local government delivers on average \$180 million of these works on State-controlled roads per annum. There are a range of localised delivery arrangements in place but the majority are delivered through Roads Maintenance Performance Contracts (RMPC) and Road Performance Contracts.

RMPCs provide routine maintenance works to RoadTek and local governments but do not involve owner type functions such as making decisions on intervention levels or design standards. RMPC works are typically awarded on a sole invitee basis, subject to continued satisfactory performance and the achievement of agreed productivity gains.

The focus is on outcomes with payment predominately made on an agreed schedule of rates for works undertaken, with local government empowered to make some adjustments (within agreed tolerances) between items and within total budget.

A guaranteed renewal period of four years applies to the contract which is subject to satisfactory performance during the contract period. There have been no instances of the guarantee period for any supplier being reduced since the introduction of RMPCs in 1994.

RPCs are contracts that involve up front negotiation but once finalised, have a fixed risk allocation. RPCs are generally awarded to RoadTek and local governments on a sole invitee basis for construction, minor works, programmed maintenance and rehabilitation activities.

To ensure pricing efficiency for work that is not awarded through open competition, work awarded by DTMR through sole invitee arrangements (such as RMPCs and RPCs) is conditional on achieving prices that would have been obtained through the open tender delivery process.

There are however, current provisions in the DTMR Policy that allow exceptions to be made to ensure the viability of communities is not adversely affected by the DTMR's road program delivery decisions, these are:

- where viability is an issue, a number of options are available to DTMR to address continuity of work for the local government and to retain expertise, including the adoption of sole invitee arrangements (provided the price continues to be competitive), and
- where viability is not an issue, works delivery (excluding routine maintenance) will be by open tender with exemptions being available based on the grounds of efficiency, specialised knowledge, level of local government contribution and abnormal social issues.

These provisions are predicated on the assumption that local governments will, in the interests of achieving continuity of works for their employees:

- maintain their own efforts in road funding
- be prepared to work cooperatively with other local governments to work, and
- explore and participate in joint arrangements (with RoadTek and the private sector) when reasonable and necessary to achieve continuity of work.

Applying these criteria in practice has meant that, in the past, many local governments (and RoadTek) have qualified for sole invitee arrangements. The table below provides an overview of the proportion of work undertaken by local governments and RoadTek either through open tender or sole invitee arrangements.

Work undertaken by local government and RoadTek (\$'000)

	LOCAL GOVERNMENT		DTMR/ROADTEK	
	OPEN TENDER	SOLE INVITEE	OPEN TENDER	SOLE INVITEE
2004/05	\$7,186	\$161,966	\$36,684	\$184,687
Sub-Total by Sector	\$169,152		\$221,371	
2005/06	\$3,307	\$154,829	\$32,860	\$238,412
Sub-Total by Sector	\$158,136		\$271,272	
2006/07	\$1,172	\$211,732	\$30,760	\$297,679
Sub-Total by Sector	\$212,904		\$328,439	
3 Year Totals	\$540,192		\$821,082	
Annual Avg over 3 yrs	\$180,064		\$273,694	
Avg Market Share over 3 yrs	15.4%		23.4%	

4 Impact on RoadTek and private sector work

The commercial arms of local government, DTMR RoadTek and the private sector are legitimate partners in this process. The table below illustrates the market share for DTMR work between local government, RoadTek and the private sector.

Share of departmental work between local government, RoadTek and the private sector (\$'000)

	LG		ROADTEK		PRIVATE SECTOR		TOTALS
	OPEN TENDER	SOLE INVITEE	OPEN TENDER	SOLE INVITEE	OPEN TENDER	SOLE INVITEE	
2004/05	\$7,186	\$161,966	\$36,684	\$184,687	\$256,134	\$27,341	
Sub-Total by Sector	\$169,152		\$221,371		\$283,475		\$673,998
2005/06	\$3,307	\$154,829	\$32,860	\$238,412	\$847,829	\$8,222	
Sub-Total by Sector	\$158,136		\$271,272		\$856,051		\$1,285,459
2006/07	\$1,172	\$211,732	\$30,760	\$297,679	\$978,322	\$35,445	
Sub-Total by Sector	\$212,904		\$328,439		\$1,013,767		\$1,555,110
3 Year Totals	\$540,192		\$821,082		\$2,153,293		\$3,514,567
Annual Avg over 3 yrs	\$180,064		\$273,694		\$717,764		
Avg Market Share over 3 yrs	15.4%		23.4%		61.3%		

APPENDIX B – EVALUATION FRAMEWORK

EVALUATION MATRIX	WEIGHTING	STATUS QUO	ABM 1	ABM 2	ABM 3	H 1	H2
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
TOTAL SCORE							

APPENDIX C – NEW TIDS CATEGORIES

TIDS CATEGORY CODE	PROJECT DETAILS	FUNDING SOURCE	TIDS CATEGORY CODE PREVIOUSLY USED
O	TIDS projects on non-LRRS network only	<ul style="list-style-type: none"> ▪ which are funded from the portion of the "Base TIDS" allocation residing with QTMR regions (not allocated to LRRS network projects by RRGs) 	A, B, C, D, E, G (part)
R	TIDS projects on LRRS network only	<ul style="list-style-type: none"> ▪ which are funded from either: the portion of the "Base TIDS" allocation directed to LRRS network projects by RRGs; the portion of base TIDS residing with regions (directed to LRRS); the "RRG Base TIDS" allocation 	A, B, C, D, E, G (part), L (part)
S	TIDS projects on local government roads (LRRS or non-LRRS network)	<ul style="list-style-type: none"> ▪ which are funded from outside the TIDS program allocations (transfer from OSCR; other government agencies) 	A, B, C, D, E, G (part)
F	TIDS projects on local government roads (LRRS or non-LRRS network)	<ul style="list-style-type: none"> ▪ which are funded from the dedicated ATSI allocation 	F
G	TIDS projects on local government network (LRRS or non-LRRS)	<ul style="list-style-type: none"> ▪ which are funded from the dedicated SEQ Bikeway grant only 	G (part)
H	TIDS projects on local government roads (LRRS or non-LRRS network)	<ul style="list-style-type: none"> ▪ which are funded from the dedicated SafeST Infrastructure grant 	H
I	TIDS projects on local government roads (LRRS or non-LRRS network)	<ul style="list-style-type: none"> ▪ which are funded from the dedicated SafeST Passenger set-down grant 	I
J	TIDS projects on local government roads (LRRS or non-LRRS network)	<ul style="list-style-type: none"> ▪ for projects receiving Australian Government funds (Black Spot programs) 	J
L	Projects representing capability development / improvement activities related to Roads Alliance	<ul style="list-style-type: none"> ▪ which are funded by the Alliance Board, from the dedicated Alliance state-wide capability development subsidy 	L (part)
N	Local Government network	<ul style="list-style-type: none"> ▪ Costs incurred by DTMR, subsequently recovered 	N

APPENDIX D – ALTERNATIVE BUSINESS MODELS

A summary of the Alternative Business Models considered by the Group are provided below. Models 1, 2 and 3 represent models suggested by the Road Alliance. Models 4 and 5 represent hybrid models developed by LGIS and the Group in response to key project drivers, identified needs and other factors.

1 New Business Model 1: Extended Regional Delivery Contracts

The **Extended Delivery Contracts model** proposes to extend the term (e.g. up to 10 year contracts) of existing arrangements between DTMR (as road steward), local governments and RoadTek (as road delivery providers), on the basis that the of road delivery services are provided at regional level.

2 New Business Model 2: Road Management and Delivery Partnerships

The **Road Management and Delivery Partnerships model** seeks to deliver improved outcomes by aligning the expectations of all parties on key outcomes, such as time, cost and quality, on the understanding that the risks and rewards will be shared according to an agreed formula.

Under this option the road owner/s could independently decide the key outcomes but then work in a contractual partnership with other road management and/or delivery providers to jointly determine how those outcomes are achieved within the funding available.

3 New Business Model 3: Regional Road Stewardship / Road Franchising

The **regional road stewardship / road franchise model** seeks to transfer, by a contract with agreed conditions, authority for agreed elements of ownership to an entity so it may perform road stewardship functions that would normally be the responsibility of the road owner.

This model would involve the road owner (e.g. DTMR) packaging a selection of road stewardship functions (i.e. road corridor management and delivery) for a region, and contracting that package out for a specified period.

4 New Business Model 4: Hybrid (Model 1 with PMO)

The **‘Extended Regional Delivery Contracts with PMO model’** proposes, in addition to the extension of regional delivery contracts as outlined in Model 1, the establishment of a PMO. This approach aims to develop a program management capability within the Group and to transfer, by a contract with agreed terms of reference, authority for agreed elements of road management to a PMO entity.

This entity would then undertake functions that would normally be the responsibility of member councils.

The PMO would, over time, seek to manage a consolidated range of programs on behalf of member councils, expanding these to include the TIDS (Roads Alliance, Other Base, Bikeways, SafeSt, Capacity Development, ATSI, and Blackspot), RMPC, RPC, Minor Works and NDRRA programs. This model requires the Group to delegate a range of its road stewardship functions to the PMO.

5 New Business Model 5: Hybrid (Model 1 with PMO and ‘consolidated funding bucket’)

The **‘Extended Regional Delivery Contracts with PMO and funding bucket’** model proposes that in addition to extending regional delivery contracts and developing a PMO capability, the Group would also consolidate and control the funding allocated across the consolidated range of programs.

The consolidated funding bucket (CFB) concept envisages the Group receiving funding allocated for works in the region and holding these funds in a jointly controlled interest bearing account. Disbursements would require authorisation in a manner agreed to by all stakeholders.

This model proposes:

- delegation of a range of the regional road stewardship functions to the PMO
- contracting the works called for by the DTMR to the FNQRRG for up to 10 years
- consolidating the inflows and disbursement of funds, and
- control over funds vesting in a central treasury function.

APPENDIX E – PMO GOVERNANCE CONSIDERATIONS

The successful establishment and operation of Model 4 requires appropriate governance support. The following governance structures options were considered in determining the optimal structure.

1 PMO Established as a Joint Venture (JV)

A JV would involve a commercial activity where member combine their resources and skills to establish a PMO.

2 PMO set up as a Business Unit within the member councils

Members may have the capacity to create a PMO business unit to undertake extended DTMR contracted works and deliver program management services.

3 PMO established as a Joint Local Government Entity

Under the *Local Government Act 1993*, a joint local government entity can be established by regulation. A Joint local government entity may enable the Group’s members (local governments)¹⁵ to transfer responsibility for the functions of the PMO to the joint body. Once established the joint local government would have all of the powers and responsibilities of a local government except the power to levy rates.

4 PMO established through charter

The agreement by all stakeholders to establish a PMO will be described in its constitution and should specify the authority of the PMO, its objectives, targets and how will it be measured and by what process.

The Group has identified that one of its key project drivers was for a flattened organisational structure as this was likely to mitigate delivery constraints. Based on the governance structures detailed above, the most appropriate outcome could be to establish and operate Model 4 as an integral part of the existing Group structure with the PMO established through a charter.

This structure potentially limits adding further complexity in operational frameworks (identified as a capability constraint by the Group).

¹⁵ The members of a joint local government must be “representatives” of the member local governments. Hence, if DTMR RoadTek and the private sector are to be a part of a long-term multi-party arrangement, then this governance structure needs to have them added.

APPENDIX F – PMO ACTIVITIES, DELIVERABLES AND TIMELINES

ACTIVITIES /DELIVERABLES		TIMELINES			
		SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
ASSET DATA MANAGEMENT					
Inward and outward data	1. Maintain an asset management (AM) system for LRRS roads only, through Excel, providing the following information: <ul style="list-style-type: none"> a. minimum common data set as required by the DTMR b. additional AM information as called for c. Where required procure AM services through third party bureau service 		✓		
	2. Develop an asset management plan highlighting gaps between projected and planned renewals		✓		
	3. Prepare road condition reports		✓		
	4. Maintain Structures Register	✓	✓		
	5. Expand roads AM system (points 1 to 4 above) to include 'other local government roads			✓	
	6. Integrate AM roads outputs with specific councils corporate plans				✓
REPORTING					



ACTIVITIES /DELIVERABLES		TIMELINES			
		SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
Roads Alliance	Provide the following reports to the Roads Alliance:				
Reports	7. Detail changes in roads network, and	✓			
	8. Respond to calls for reports and / or data as and when required	✓			
Track maintenance expenditure on LRRS	Provide the following reports to the Roads Group:				
	9. Level of TIDS expenditure and current year underspend.	✓			
	10. Determine success of current funding utilisation (TIDS)	✓			
	11. Prepare estimate of forward program and likelihood of fully utilising funds	✓			
	12. Track program funding and delivery of works	✓			
	13. Schedule tracking members' TIDS funding applications (submissions)	✓			
	14. Maintain and report on road maintenance outside of TIDS program	✓		✓	
	Undertake the following roles:				
	15. Collate and maintain the necessary unit cost data to allow Councils to work on a sole invitee basis for the DTMR's RMPC works			✓	
	16. Tender for work on behalf of Group for the DTMR's RMPC works			✓	
	17. Schedule delivery of RMPC works where tender awarded			✓	
	18. Expand delivery of other works programs by the Group (ie NDRRA / RPC)			✓	
Federal reporting R2R	Provide the following reports to the Federal Roads Authorities:				
	19. Road length data			✓	
	20. Web based inputs as specified by federal organisation(s)			✓	

ACTIVITIES /DELIVERABLES		TIMELINES			
		SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
SAFETY					
Road safety and Risk management	Monitor and manage NetRisk program and data.				
	21. Facilitate road safety assessment for Group	✓			
	22. Report on outcomes of safety condition assessment LRRS.	✓			
	23. Report on outcomes of bridge inspections (level 2)	✓			
	24. Ensure outcomes reflected in Groups prioritisation tool for ranking of Councils' works programs	✓			
	25. Schedule and deliver routine bridge inspections			✓	
Traffic data	26. Develop, implement and deliver a program scheduling traffic count data			✓	
	27. Prepare summary report on outcomes of traffic count	✓		✓	
Asset risk management plans	28. Prepare a Risk management plan based on NetRisk assessment data plan in accordance with AS/NZ 4360:2004			✓	
RESOURCING					

ACTIVITIES /DELIVERABLES		TIMELINES			
		SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
Resource sharing	Investigate and report on:				
	29. Current JP&RS initiatives and outcomes	✓			
	30. Develop and increase JP&RS activities	✓	✓		
	31. Develop and increase resource sharing of specialised services.		✓		
	32. Identify and manage specific JP projects identified by Group		✓		
	33. Identify and manage specific RS projects identified by Group		✓		
	34. Proactively identify and expand (ongoing) JP&RS opportunities for the Group		✓	✓	✓

ACTIVITIES /DELIVERABLES	TIMELINES			
	SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
Joint purchasing				
Local Buy				
35. Current use of Local Buy, State and DTMR procurement services		✓		
36. Level of utilisation of local resources		✓		
37. Proactively identify and expand utilisation of Local Buy, State and DTMR procurement services in the future		✓		
State				
38. Current utilisation of RoadTek's services		✓		
39. Opportunities to increase utilisation of RoadTek's services in the future (based on cost)		✓		
40. Proactively identify and expand use of RoadTek's services within the Group.		✓		
Group procurement				
41. Consolidate Group's works projects and products, develop regional purchasing program		✓		
42. Identify optimal procurement method and approach market on behalf of Group		✓		
43. Supervise mobilisation and delivery			✓	
44. Settle supplier claims			✓	
45. Provide reports detailing approach and outcomes			✓	

PROGRAM DELIVERY AND PLANNING



		TIMELINES		
ACTIVITIES /DELIVERABLES	SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
Funding	54. Identify and report on potential new funding streams and funding gaps, detailing eligibility and claims processes.		✓	✓
	55. Apply for funding on behalf of members		✓	✓
TRAINING				
	56. Undertake a training needs analysis.	✓		
	57. Establish Group's training needs (short, medium and long term)		✓	
	58. Develop Group's training budget - 1, 2 and 5 year		✓	
	59. Develop and arrange appropriate training		✓	
	60. Maintain attendance register		✓	
	61. Conduct training surveys ie establish if group is receiving value for money		✓	
	62. Assess training opportunities with DEIR (Indigenous training)		✓	
ADMINISTRATION				
	Support Group's administrative capacity by preparing and distributing schedules detailing:			
	63. RRG meeting dates – One year forward	✓		
	64. RRGTC meeting dates – One year forward	✓		
	65. Meeting notices, agenda and minutes	✓		
SECRETARIAL SERVICES				

ACTIVITIES /DELIVERABLES	TIMELINES			
	SERVICES CURRENTLY PROVIDED BY TECHNICAL COORDINATOR	ADDITIONAL SERVICES TAKEN ON IN STAGE 1	ADDITIONAL SERVICES TAKEN ON IN STAGE 2	ADDITIONAL SERVICES TAKEN ON IN STAGE 3
Support Group's secretarial function by preparing and maintaining:				
66. Register of attendances at RRG and RRG TC meetings	✓			
67. Register of minutes	✓			
68. Managing the administration funds of the RRG	✓			
69. Minuting and recording appointment of chairpersons and members of the RRG	✓			

APPENDIX G – ADVANTAGES AND DISADVANTAGES (LOCAL GOVERNMENT)

	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Scope and scale	<p>Greater financial certainty and revenue stability.</p> <p>Can invest in better delivery technology and systems.</p> <p>Employment stability.</p> <p>Greater scope to identify subcontracting opportunities</p> <p>Improved staff attraction.</p> <p>Improve delivery efficiency.</p> <p>Resources can be deployed regionally to optimise work distribution</p>	<p>Greater financial certainty and revenue stability.</p> <p>Can invest in better delivery technology and systems.</p> <p>Employment stability.</p> <p>Improved skills attraction</p> <p>Improved delivery efficiency.</p> <p>Guaranteed access to an expanded range of work activities.</p> <p>Economies of scale with expanded local government role.</p> <p>Increased authority.</p>	<p>Greater financial certainty and revenue stability.</p> <p>Can invest in better delivery technology and systems.</p> <p>Employment stability and improved skills attraction.</p> <p>Expanded scale and scope of activities.</p> <p>Increased authority and reduced approval process.</p>	<p>Local Government staff may have to work further away from base to perform regional level road delivery.</p> <p>Potential need to invest in higher skill levels, which may require upfront costs.</p>	<p>Some potential initial administrative and technical resource burden.</p> <p>Local Government staff may have to work further away from base to perform regional level road delivery.</p> <p>Potential need to invest in higher skill levels, which may require upfront costs.</p>	<p>Need to invest in higher skill level.</p> <p>Potential need for greater staff accommodation requirements.</p> <p>Local Government staff may have to work further away from base to perform regional level road delivery.</p> <p>Potential need to invest in higher skill levels, which may require upfront costs.</p>
Ownership and control of assets	<p>No impact.</p>	<p>No impact on ownership.</p> <p>Greater Local Government stewardship control.</p> <p>Influence on service levels through contract negotiations</p>	<p>Authority over State-controlled roads within contract.</p> <p>Reduced bureaucracy</p> <p>Reduced need for approvals</p>	<p>No impact.</p>	<p>Increased Local Government responsibility.</p>	<p>Increased responsibility.</p>
Funding arrangements	<p>Longer term funding certainty.</p>	<p>Increased opportunity for funding. Mutual incentive to drive savings</p>	<p>Increased authority on targeting available funding.</p>		<p>Exposure to the risk of financial cost overruns due to other partner under-performance.</p>	<p>Local Government has limited influence on total funding levels.</p> <p>Risk / opportunity associated with indexed funding.</p>



	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Legal issues	No impact.	Risk reduced through sharing DTMR may consider limiting Local Government exposure.	DMR may consider limiting Local Government exposure.	No impact.	Greater Local Government risk because of increased role.	Risk transferred to Local Government.
Financial issues	More flexibility on payment options. A program delivery payment (if adopted) could reduce contract administration costs. Program savings could be reinvested into the regional road network. Longer contract terms could reduce overheads and start-up costs.	More flexibility on payment options. Greater authority to manage costs and program administration. Greater control of costs and profit Open book accounting. Shared financial risk	Reduced contract administration costs. Longer contract term will reduce start-up costs. Any losses limited to profit and overheads.	If a fixed program delivery fee is used, Local Government may carry an increased risk of a loss over a long period.	Exposure to risk of financial cost overruns due to other partner under-performance. Profits / losses are shared.	Local Government carries the risk / opportunity of loss or gains over a long period. Total funding available may be limited by DTMR.
Relational issues	Similar to current.	Opportunity to strengthen relationship. DTMR remains directly involved.	Opportunity to strengthen relationship.	Similar to current.	Exposure to the wider range of issues. Increased Local Government commitment however may assist with existing in-house deficiencies.	Limited DTMR involvement
Political issues	Similar to current.	No blame culture – interests are aligned.	Increased Local Government authority to manage political risk regionally.	Similar to current.	Regional view has priority.	Minimal impact (except where work is allocated LGs)



	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Capability and capacity	Improved employment stability with long term contract.	Improved employment stability with long term contract. Improved skills sharing, attraction and retention.	Employment stability with long term franchise agreement. Improved skills sharing, attraction and retention.		Possible difficulties in with acquiring additional capability and capacity Increased level of skills migration to private sector likely	Costs associated with building additional capability and capacity. Possible shortage of available capacity



APPENDIX H – ADVANTAGES AND DISADVANTAGES (DTMR)

	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Scope and scale		<p>Potential for reduced administrative costs in the long term.</p> <p>Efficiencies form increased scope of work.</p> <p>Improved cash flow planning.</p> <p>Greater transparency in expenditure.</p> <p>Easier to deal with uncertainty.</p> <p>Administrative and Technical consistency.</p>	<p>Reduced administrative costs.</p> <p>Improved cash flow planning.</p> <p>Allows DTMR to focus on strategic roles (outcomes).</p> <p>Will drive contractor to make optimal use of funding.</p>	<p>Disruption if arrangements fail.</p> <p>May need to provide additional guidance on what should be delivered.</p> <p>Longer term commitment reduces flexibility of state-wide programming.</p> <p>Could be difficult to change.</p>	<p>Reduced flexibility.</p> <p>Longer term commitment.</p> <p>Notice period to withdraw from the contract.</p> <p>Some loss of control.</p> <p>Administrative and technical resource task.</p>	<p>Big disruption if arrangements fail.</p> <p>Reduced flexibility.</p> <p>Longer term commitment.</p> <p>Difficult to change.</p> <p>Loss of control.</p> <p>Difficult to implement this option if future condition cannot be forecast.</p>
Ownership and control of assets	No impact.	<p>DTMR responsibility shared.</p> <p>Increased community ownership.</p> <p>Potential to reduce stewardship burden</p>	Reduced responsibility	No impact.	<p>No impact on ownership.</p> <p>Greater Local Government control.</p> <p>Could result in disproportionate burden being transferred to the owner by having to manage the partnership and delivery.</p>	<p>No impact on ownership.</p> <p>Contractor has greater control.</p> <p>An opt-out clause will likely be necessary but may be problematic to manage.</p> <p>Preventing the contractor from 'running-down' the asset to save money may be difficult.</p>

	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Funding arrangements		<p>Funding impacts are minimal.</p> <p>Increased community ownership of regional priorities for given funding.</p> <p>Open book accounting.</p> <p>Mutual incentive to drive savings</p> <p>Any profits are shared and re-invested into the road network.</p>	<p>If fixed program delivery fee, DTMR has more financial certainty and reduce contract administration costs.</p> <p>Longer contract term will reduce start-up costs.</p> <p>Payment will be for what is delivered (outcome) rather than how it is delivered (activities).</p>	<p>Longer commitment.</p>	<p>Possible start-up costs.</p> <p>DTMR is controlling the total funding and standards– If funding is fixed, the Alliance nominates the scope of work that it can deliver.</p>	<p>Establishment costs may be high</p> <p>DTMR is controlling the total funding and standards– If funding is fixed, the contractor nominates the scope of work that it can deliver – If standards are fixed, Contractor nominates the funding and scope of works required.</p> <p>It will be difficult to define the risks passed to the contractor in dollar terms.</p> <p>Balancing available funding with expectations will be difficult.</p>
Legal issues	No impact.	Risk shared with Local Government.	Level of risk transferred to contractor.	No impact.	Third parties acting on DTMR' behalf.	<p>Third parties acting on DTMR's behalf.</p> <p>Contractor may not achieve required standards with funds.</p>



	ADVANTAGES ABM 1	ADVANTAGES ABM 2	ADVANTAGES ABM 3	DISADVANTAGES ABM 1	DISADVANTAGES ABM 2	DISADVANTAGES ABM 3
Financial issues		Impacts are minimal. Any profits are shared. Open book accounting.	Contracts are outcome based and funded through fixed feed or shadow tolls. Local Government regionally take on increased authority on regional strategic roads. Retain control over funding.	Longer period contracts may reduce flexibility. Inflation may impact on the sustainability of arrangements. Cost escalation may result in a reduced program being delivered.	Longer term commitment. Partnership setup costs. Exposed to risk of financial cost overruns due to other partner under-performance. Profits / losses are shared.	Longer term commitment. Franchise setup costs.
Relational issues	Similar to current.	Opportunity to strengthen relationship. DTMR remains directly involved.	Opportunity to strengthen relationship.	Similar to current.	Less contractual leverage.	Less contractual leverage. Less direct involvement.
Political issues	Similar to current.	Reduced incentive to shift blame. Shared risk. Strengthening regional priorities.	Minimal Impact. Strengthening regional relationships.	Similar to current.	Regional view has priority.	DTMR RoadTek could lose access Risk to DTMR reputation if contractor under-performs.
Capability and capacity		Stable delivery arrangements. Long term access to regional resources. Potential to re-allocate resources to higher level roads. Skills sharing.	Stable delivery arrangements. Long term access and employment to regional resources. Potential re-allocation of resources to higher level roads.	May need to develop capability to administer extended arrangements.	Could have short term impact on Main Road's capacity to establish.	There may not be sufficient capability to manage this option.



APPENDIX I – JP&RS OPPORTUNITIES IDENTIFIED

Resource sharing

Potential resource sharing opportunities identified by the Group, noting financial impact is not included in the Cost\Benefit Analysis at this stage:

- design
- project management
- training
- bridge inspections
- flood damage
- specialised services
- centralised data management, and
- laboratory and testing services.

Joint purchasing

List of the potential products identified by the Group for joint purchasing:

- water and sewerage chemicals
- fuel and oil**
- tyres**
- fleet**
- guard rails
- bitumen (supply only)
- asphalt (supply only)
- in-site stabilisation (based on demand)
- roadworks and traffic signs
- guide posts
- line marking
- street lighting maintenance
- bridge construction (based on demand)
- bridge piling
- bridge piles
- bridge deck units / girders
- concrete



- RCPs, RCBCs, precast headwalls
- other precast concrete products
- water and sewerage pipe
- water and sewerage fittings, and
- large plant purchase.

** Products identified by the FNQROC as high priority items for JP

APPENDIX J – COST/BENEFIT ANALYSIS

Key assumptions

Benefits

- The template quantifies benefits associated with group program improvements, joint purchasing benefits, resource sharing synergies and internal staff cost savings.
- A low and high scenario is determined for joint purchasing benefits. The low case is set at 5 per cent of the overall program value while the high case is set to 15 per cent of the overall program value.
- An annual efficiency improvement percentage of 2.5 per cent is used to quantify the efficiency benefit associated with consolidating the group’s projects. Benefits are assumed to increase from 2.5 per cent in Stage 1 to 5 per cent in Stage 2 and 7.5 per cent in Stage 3.
- To determine the potential internal staff cost savings derived by using a PMO, a low and high scenario is determined based on a low employee rate per hour of \$55 and a high employee rate per hour of \$75.

Costs

- The model quantifies costs associated with the employment and administration of a PMO.
- A Program Manager Contract Rate of \$120 per hour is assumed to quantify the cost of the PMO.
- For the purposes of calculating labour costs, it is assumed that each stage is one year in length. That is, all staff costs are annualised.
- The base monthly administration costs for the PMO are estimated to be \$5,750 in Stage 1.
- Administration costs increase proportionally to the increase in the hours worked by the PMO for Stage 2 and Stage 3.
- For the extended JP program it has been assumed that the PMO will need to work an extra week per month for each stage.

General

- All inputs and outputs are quoted in today’s (real) dollars. That is, inflation has not been taken into account as the timing and length of the stages are unknown.
- The template has been designed for demonstration purposes only. The data included in the template is for illustration.

Cost\Benefit Analysis – Financial outcomes

The following Cost\Benefit Analysis model outputs are provided below:

- 1 General inputs page
- 2 Summary of Cost\Benefit Analysis outputs – costs, benefits and potential net savings
- 3 Savings on member councils internal costs summary sheet
- 4 PMO Administration cost summary sheet
- 5 Benefits attributable from program improvements sheet
- 6 Program Management Cost sheet
- 7 Joint Purchasing saving sheet



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FNQRRG ABM Demonstration Template
Hybrid 4 - Cost Benefit Analysis
General Inputs

1.1 General Information

Customer Name Model/Project Name	FNQRRG ABM Demonstration Template Hybrid 4 - Cost Benefit Analysis DRAFT
Denomination Months in Year	\$'000 12

1.2 Names of Road Group Members

Group Member 1 Group Member 2 Group Member 3 Group Member 4 Group Member 5	Cairns RC Cassowary Coast RC Cook SC Tablelands RC FNQRRG -TIDS
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1.3 Names of Road Group Members

Number of Councils in Group	4
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1.4 Potential Benefits as a Percentage of Program Value

Low Series Potential Benefit Rate	5.00%
High Series Potential Benefit Rate	15.00%

1.5 Employee Costs

Low Series Employee Cost Rate per Hour	\$55
High Series Employee Cost Rate per Hour	\$75
Program Manager Contract Rate	\$120

1.6 Annual Working Hours of Full-Time Equivalent

Hours per Working Day	7
Working Days per Working Week	5
Working Weeks per Year	48
Efficiency	80%

1.7 Annual Efficiency Improvements Resulting from Consolidation of Group Projects

Stage 1 Estimated Percentage	2.50%
Stage 2 Estimated Percentage	5.00%
Stage 3 Estimated Percentage	7.50%

1.8 Base Running Costs for PMO

Office, administration and sundry costs	\$2,000
Travel and ancillary expenses	\$2,000
Financial and reporting	\$500
Internet, email and phones	\$500
Leases for office equipment	\$750

Cost/Benefit Analysis inputs summary sheet


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FNQRRG ABM Demonstration Template
 Hybrid 4 - Cost Benefit Analysis
 Summary

	Stage 1 \$'000	Stage 2 \$'000	Stage 3 \$'000	Total
Low Series Scenarios				
Using Base JP Program:				
Estimated Benefits				
Group program improvements	509	1,019	1,528	3,056
Joint purchasing benefits	700	735	772	2,207
Resource sharing synergies	-	-	-	-
Internal staff cost savings	50	227	255	532
Total Benefits	1,259	1,981	2,555	5,795
Estimated Costs				
Project manager costs	75	249	282	606
PMO administration costs	69	230	260	559
Total Costs	144	479	542	1,165
Net Benefit	1,115	1,502	2,013	4,630
Benefit Multiplier	7.75	4.20	3.97	
Using Extended JP Program:				
Estimated Benefits				
Group program improvements	509	1,019	1,528	3,056
Joint purchasing benefits	700	885	1,079	2,664
Resource sharing synergies	-	-	-	-
Internal staff cost savings	50	227	255	532
Total Benefits	1,259	2,131	2,862	6,252
Estimated Costs				
Project manager costs	75	249	282	606
Additional project manager costs	-	52	104	157
PMO administration costs	69	230	260	559
Total Costs	144	531	647	1,321
Net Benefit	1,115	1,600	2,216	4,931
Benefit Multiplier	7.75	4.02	3.73	
High Series Scenarios				
Using Base JP Program:				
Estimated Benefits				
Group program improvements	509	1,019	1,528	3,056
Joint purchasing benefits	2,100	2,205	2,315	6,620
Resource sharing synergies	-	-	-	-
Internal staff cost savings	50	227	255	532
Total Benefits	2,659	3,451	4,098	10,208
Estimated Costs				
Project manager costs	75	249	282	606
PMO administration costs	69	230	260	559
Total Costs	144	479	542	1,165
Net Benefit	2,515	2,972	3,556	9,043
Benefit Multiplier	17.48	8.81	7.76	
Using Extended JP Program:				
Estimated Benefits				
Group program improvements	509	1,019	1,528	3,056
Joint purchasing benefits	2,100	2,655	3,238	7,993
Resource sharing synergies	-	-	-	-
Internal staff cost savings	50	227	255	532
Total Benefits	2,659	3,901	5,021	11,581
Estimated Costs				
Project manager costs	75	249	282	606
Additional project manager costs	-	52	104	157
PMO administration costs	69	230	260	559
Total Costs	144	531	647	1,321
Net Benefit	2,515	3,370	4,374	10,259
Benefit Multiplier	17.48	8.72	7.76	



Cost\Benefit Analysis Savings on member councils internal costs summary sheet

	Index	FNQRRG ABM Demonstration Template Hybrid 4 - Cost Benefit Analysis Schedule D – Potential Savings on Internal Staff Costs
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	Portion of Hours Saved by each Council	Hours saved by PMO per Month per Council			
		Stage 1	Stage 2	Stage 3	Total
Additional savings (in hours) provided by the PMO at each Stage:					
Group 1 – Asset data management	100%	16	20	5	41
Group 2 – Reporting	50%	-	18	-	18
Group 3 – Safety	50%	-	4	-	4
Group 4 – Resourcing	0%	-	-	-	-
Group 5 – Program delivery and planning	50%	-	3	4	7
Group 6 – Training	75%	-	13	-	13
Group 7 – Administration	0%	-	-	-	-
Group 8 – Secretarial services	0%	-	-	-	-
Estimate of hours per month saved by PMO for each Council		16	57	9	82
Total savings (in hours) provided by the PMO at each Stage:					
Group 1 – Asset data management	100%	16	36	41	93
Group 2 – Reporting	50%	-	18	18	35
Group 3 – Safety	50%	-	4	4	7
Group 4 – Resourcing	0%	-	-	-	-
Group 5 – Program delivery and planning	50%	-	3	7	10
Group 6 – Training	75%	-	13	13	26
Group 7 – Administration	0%	-	-	-	-
Group 8 – Secretarial services	0%	-	-	-	-
Estimate of hours per month saved by PMO for each Council		16	73	82	171
Estimate of hours per year saved by PMO for each Council		192	873	981	2,046
Potential savings in work load at Council level for 4 Councils (hours per year)		768	3,492	3,924	8,184
Low series rate per hour		\$55	\$55	\$55	
High series rate per hour		\$75	\$75	\$75	
Potential annual internal staff cost savings:					
Low series savings		\$42,240	\$192,060	\$215,820	\$450,120
High series savings		\$57,600	\$261,900	\$294,300	\$613,800
Average savings		\$49,920	\$226,980	\$255,060	\$531,960

Cost\Benefit Analysis PMO Administration cost summary sheet

	Index	FNQRRG ABM Demonstration Template Hybrid 4 - Cost Benefit Analysis Schedule F – Administration Costs for PMO
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	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Growth In-line with PMO activity:		232.7%	13.3%	
Office, administration and sundry costs	2,000	6,654	7,538	16,192
Travel and ancillary expenses	2,000	6,654	7,538	16,192
Financial and reporting	500	1,663	1,885	4,048
Internet, email and phones	500	1,663	1,885	4,048
Leases for office equipment	750	2,495	2,827	6,072
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
Total monthly costs	5,750	19,130	21,673	46,553
Annualised costs	69,000	229,558	260,077	558,635

Cost\Benefit Analysis benefits attributable from program improvements sheet



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FNQRRG ABM Demonstration Template
Hybrid 4 - Cost Benefit Analysis
Schedule A – Savings from Group Program Improvements

	Stage 1 \$'000	Stage 2 \$'000	Stage 3 \$'000	Total \$'000
RMPC	5,200	5,200	5,200	15,600
RPC	5,500	5,500	5,500	16,500
Blackspot	700	700	700	2,100
Other	1,500	1,500	1,500	4,500
RRG TIDS	5,530	5,530	5,530	16,590
Base TIDS	1,344	1,344	1,344	4,032
SafeST TIDS	600	600	600	1,800
Total value of Programs	20,374	20,374	20,374	61,122
Estimated Annual Improvement	2.50%	5.00%	7.50%	
Savings resulting from Group Program improvements	509	1,019	1,528	3,056

Cost\Benefit Analysis Program Management Cost sheet



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FNQRRG ABM Demonstration Template

Hybrid 4 - Cost Benefit Analysis

Schedule E – Resource Cost Estimations

	Estimated work (hours) per Stage			
	Stage 1	Stage 2	Stage 3	Total
Additional estimated resources (in hours) required from the PMO at each Stage:				
Group 1 – Asset data management	21	20	5	46
Group 2 – Reporting	-	35	-	35
Group 3 – Safety	-	12	-	12
Group 4 – Resourcing	31	19	10	60
Group 5 – Program delivery and planning	-	18	8	26
Group 6 – Training	-	17	-	17
Group 7 – Administration	-	-	-	-
Group 8 – Secretarial services	-	-	-	-
Total hours per month required	52	121	23	196
Total estimated resources (in hours) required from the PMO at each Stage:				
Group 1 – Asset data management	21	41	46	108
Group 2 – Reporting	-	35	35	70
Group 3 – Safety	-	12	12	24
Group 4 – Resourcing	31	50	60	141
Group 5 – Program delivery and planning	-	18	26	44
Group 6 – Training	-	17	17	34
Group 7 – Administration	-	-	-	-
Group 8 – Secretarial services	-	-	-	-
Total hours per month required	52	173	196	421
Total hours per year required by the PMO	624	2,076	2,352	5,052
Estimated PMO contractor rate (per hour)	\$120	\$120	\$120	\$120
Cost of ABM per annum	\$74,880	\$249,120	\$282,240	\$606,240
Estimated additional hours per month required to manage expanded JP program				
	-	36	73	109
Annualised additional hours	-	435	870	1,305
Cost of ABM per annum	-	\$52,200	\$104,400	\$156,600
Hours per Working Day	7	7	7	
Working Days per Working Week	5	5	5	
Working Weeks per Year	48	48	48	
Efficiency	80%	80%	80%	
Estimated standard working hours per annum	1,392	1,392	1,392	
FTE staff required	0.45	1.49	1.69	

Cost\Benefit Analysis Joint Purchasing saving sheet

	<div style="border: 1px solid white; padding: 2px; display: inline-block;">Index</div>	DRAFT	FNQRRG ABM Demonstration Template Hybrid 4 - Cost Benefit Analysis Schedule B – Potential Savings from Joint Purchasing (JP)
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	All Members			
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Key JP opportunities identified by the Group:				
Bitumen reseal	10,200	10,710	11,246	32,156
Asphalt reseal	3,800	3,990	4,190	11,980
Total value of key JP opportunities	14,000	14,700	15,435	44,135
Potential JP opportunities identified by the Group:				
Water and sewerage chemicals	-	-	-	-
Fuel and oil**	-	-	-	-
Tyres**	-	-	-	-
Fleet**	-	-	-	-
Guard rails	-	-	-	-
Bitumen (supply only)	-	3,000	3,150	6,150
Asphalt (supply only)	-	-	-	-
In-site stabilisation (based on demand)	-	-	-	-
Roadworks and traffic signs	-	-	-	-
Guide posts	-	-	-	-
Linemarking	-	-	-	-
Street lighting maintenance	-	-	-	-
Bridge construction (based on demand)	-	-	-	-
Bridge piling	-	-	-	-
Bridge piles	-	-	-	-
Bridge deck units / girders	-	-	3,000	3,000
Concrete	-	-	-	-
RCPs, RCBCs, precast headwalls	-	-	-	-
Other precast concrete products	-	-	-	-
Water and sewerage pipe	-	-	-	-
Water and sewerage fittings	-	-	-	-
Large plant purchase	-	-	-	-
Total value of potential JP opportunities	-	3,000	6,150	9,150
Total value of all JP opportunities	14,000	17,700	21,585	53,285

Potential Savings					
Base Joint Purchasing Program:					
Low Series Potential Benefit Rate	5.00%	700	735	772	2,207
High Series Potential Benefit Rate	15.00%	2,100	2,205	2,315	6,620
Extended Joint Purchasing Program:					
Low Series Potential Benefit Rate	5.00%	700	885	1,079	2,664
High Series Potential Benefit Rate	15.00%	2,100	2,655	3,238	7,993

* - Value of purchases input for demonstration purposes only - values to be established by the Group
 ** - Products identified by the Group's FNQROC as high priority items for JP

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