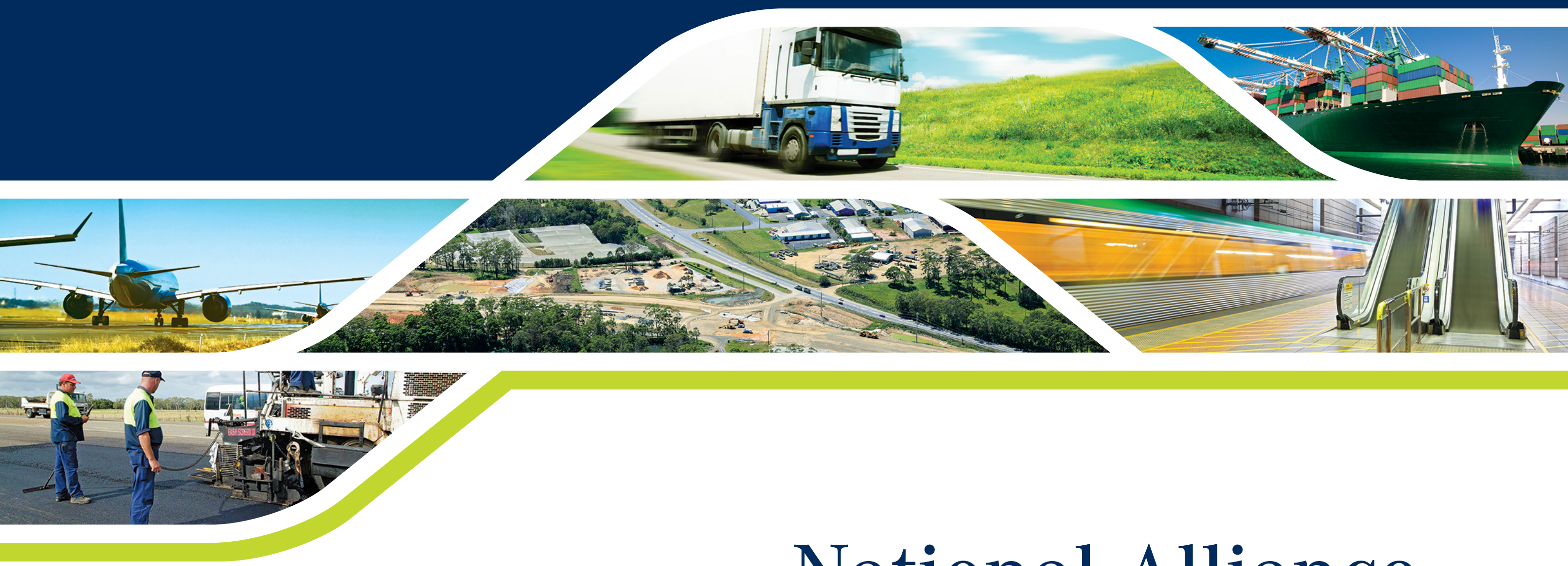
Australian Government

Department of Infrastructure and Regional Development



National Alliance Contracting Guidelines

Guidance Note 4
Reporting Value-for-Money Outcomes

September 2015

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Document Updates

This Guidance Note will be updated from time to time to reflect evolving best practices and lessons learned.

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Note

Governments in each jurisdiction will have their own individual approval processes for capital investment projects, as well as policies (e.g. probity) and legislation that will impact on all capital works delivery. These over-arching jurisdictional requirements are precedent to the alliance practices covered in this document.

Acknowledgement

This Guidance Note is based on the guidance note of the same name prepared under the sponsorship of the Inter-Jurisdictional Alliancing Steering Committee with membership from:

- Department of Treasury and Finance, Victoria (Chair)
- Treasury, New South Wales
- Treasury, Queensland
- Department of Treasury and Finance, Western Australia
- Department of Infrastructure and Regional Development, Australian Government

The production of the Guidance Note was prepared by the Department of Treasury and Finance Victoria, with input on the Exposure Draft from Graeme Joyce of Graeme Joyce Pty Ltd.

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1 Preamble

Governments[1] seek to achieve a very broad range of social, environmental and economic objectives on behalf of the community. This results in an equally broad range of capital and infrastructure projects. There are a number of project delivery methods which can be applied to cater for the government projects on a 'fit-for-purpose' basis. The project delivery methodology should be selected on the basis of careful and knowledgeable analysis of the relevant project characteristics and risks.

Increasingly, governments are using alliance contracting to procure significant infrastructure. A key value proposition of alliancing is that government entities reduce their traditional contractual rights (under a 'risk transfer' contract) in exchange for Non-Owner Participants bringing to the project their 'good faith', acting with the highest level of 'integrity' and making decisions which are 'best-for-project'.

The success of an alliance project may be measured with reference to whether Value-for-Money (VfM) outcomes have been appropriately understood, managed, delivered and reported. This Guidance Note seeks to provide a framework for the VfM concept to be better understood and measured, in a way that is shared by the government, the Owner and the alliance. This includes recognising the role of the Business Case, and the need for both a VfM Statement prepared by the Owner for the alliance at commencement of the tender, and a VfM Report prepared by the Owner for the government at project conclusion.

Like all delivery methods, there should be continual improvements to alliancing. This Guidance Note aims to identify where alliance arrangements can be improved to further deliver and demonstrate their value to the public interest.

[1] Unless otherwise stated, the expression 'government' is used to denote all the government entities of Australia, which include the Commonwealth of Australia and all Australian state governments and territories.

2 Overview

2.1 Introduction

Traditionally, many public sector agencies have reported on the performance of an alliance through a Value-for-Money (VfM) Report which is prepared at project completion. Whilst VfM Reports are encouraged, the approach to preparing VfM Reports has been wide ranging. As such, the usefulness of VfM Reports to properly inform the government on the alliance's performance can be improved.

It is not difficult to provide a definition of VfM, however, it is more challenging to fully articulate how the VfM concept is applied to plan and practically assess VfM outcomes for an alliance project. Moreover, the understanding and application of the VfM concept appears to vary greatly across public agencies and alliance projects.

This Guidance Note has been prepared to:

a) Align the understanding and use of the VfM concept in alliancing with general government processes and practices.

b) Provide a framework for appreciating, reporting and measuring VfM that is shared by the government, the Owner and the alliance.

c) Identify how/where alliancing arrangements can be improved to further demonstrate their value to the government.

d) Provide an Owner's VfM Statement template to ensure the alliance deliverables are aligned to the approved Business Case.

e) Provide a VfM Report template to promote reporting on alliances in a manner that is comparable between projects and meets a consistent standard that is acceptable to the government.

It should be noted that this Guidance Note requires VfM Reports to be prepared on the basis of the government's view of VfM. It proposes that the VfM Report be provided from the Owner to the government to demonstrate the performance of the alliance in achieving the approved objectives detailed in the Business Case[2].

Figure 1 illustrates the planning steps in relation to VfM outcomes in an alliance, referencing the Business Case, the Owner's VfM Statement and finally a VfM Report submitted by the Owner to the government.

Table 1 illustrates the roles played in the VfM planning and development of an alliance.

[2] Recommendation 7.1 in the Productivity Commission 2014, Public Infrastructure, Inquiry Report No. 71, Canberra, is noteworthy. In the context of all contracting models, it recommends "…. monitoring of project performance and ex-post independent evaluation and publication of project outcomes (including periodic reporting of benchmark costs by Infrastructure Australia) (page 40)". This is consistent with the position taken in this Guidance Note that VFM Reports need to be prepared independent of the Alliance.

Figure 1: Hierarchy of steps for planning and reporting VfM outcomes in an alliance

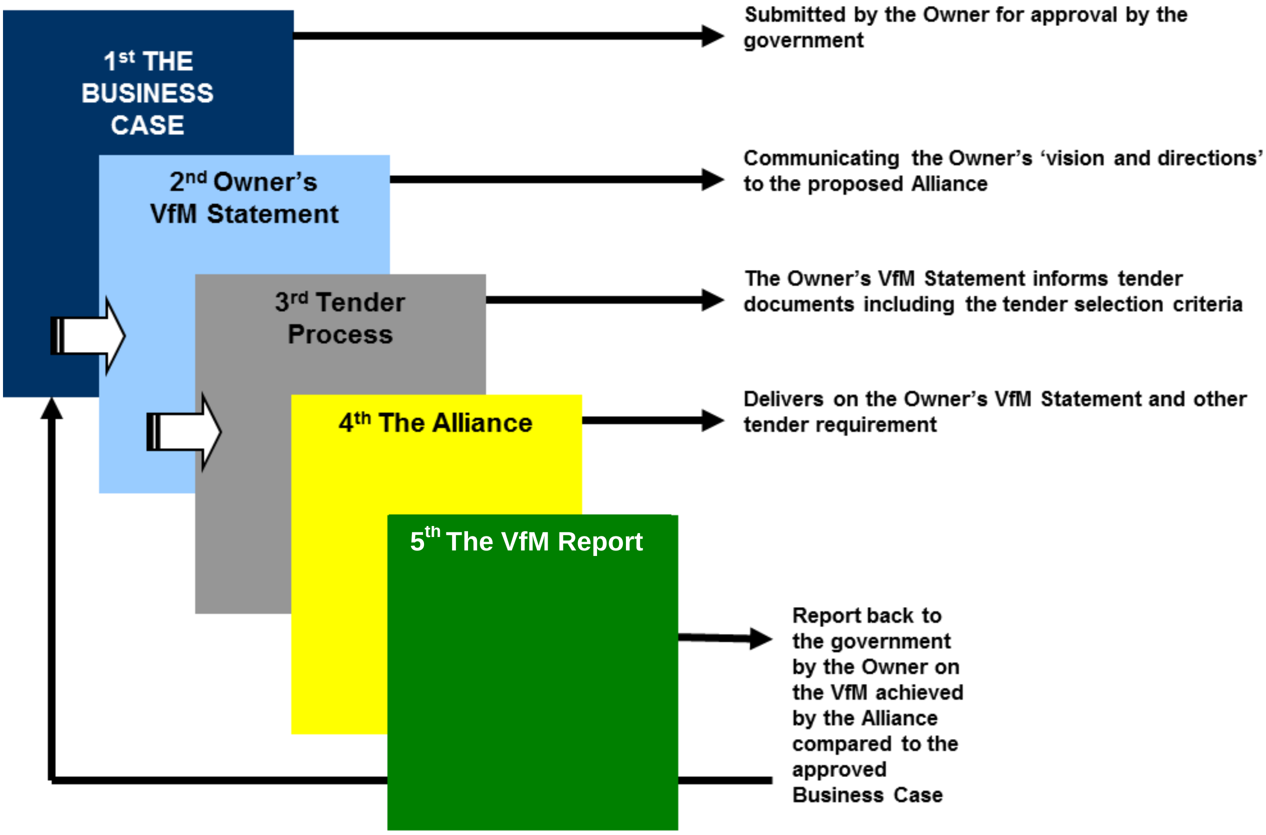


Table 1: Illustrates the roles of the parties in planning for, and reporting, VfM outcomes

	Selected planning and delivery steps				
Role in project lifecycle	**1. Business Case**	**2. Owner's VfM Statement**	**3. Tender Processes & PAA**	**4. The Alliance** **(*Project Delivery*)**	**5. VfM Report** **(*Project implementation review*)**
Government	Determines investment priorities and approves funding for selected business cases.	Provides funding (and/or underwrites risks).	Provides funding (and/or underwrites risks). May have approval role for specified tender milestones.	Provides funding (and/or underwrites risks). Receives progress reports from Owner (against approved Business Case).	Receives formal VfM Report from Owner which assesses VfM outcomes against approved Business Case.
Agency/ Owner	Identifies community need and possible solutions for funding by govt. Prepares Business Case for approval by govt.	Finalises the Owner's VfM Statement (which is aligned with the Business Case approvals), clearly articulates project parameters, objectives and budget.	Attaches and incorporates the VfM Statement into Tender documents.[3] Finalises the Tender Selection Criteria for NOP evaluation and selection. Prepares RFP (including draft PAA). Develops TOC.	Maintains active informed commercial role as part of the alliance. Provides suitable Participants to be part of the alliance.	Prepares a post implementation review of the alliance project (ie the VfM Report for the govt).
Alliance (Proponents and then Participants)	No role.	No role.	Develops TOC, aligns and agrees to PAA to deliver on Owner's VfM Statement and other tender requirements.	Provides regular project progress reports to Owner.	Project documentation available to support post implementation review process.

[3] Some of the Business Case content lends itself being incorporated in the PAA and Owner's VfM Statement (e.g. the functionality of the infrastructure asset to be constructed); however, most of the content may not be associated with the work of the alliance (e.g. the expected social and economic benefits arising from the new community services being enabled by the infrastructure). The Owner's VfM Statement is designed to be directly relevant to, and applied by, the alliance. It informs the drafting of the PAA and the full Owner's VfM Statement should be incorporated as part of the PAA.

2.2 Why report VfM Outcomes in Alliance Contracting?

Each year, governments have a large stream of capital projects. It should be common practice to strive for continuous improvement through reporting on 'success and failures' and lessons learned on these projects.

Alliancing presents some challenges for reporting VfM outcomes, when compared to other forms of contracting which are not relationship-based (e.g. design and construct' and Public-Private Partnerships). These other procurement methodologies have defined benchmarking processes that inform judgements on VfM outcomes. For example, Public-Private Partnerships use Public Sector Comparators; and bids for 'design and construct' contracts will have well-defined scope and deliverables determined by the project Owner as well as a contract price.

It is always preferable to have cost certainty at the onset of a project. However, in some alliances, the final project solution and final costs may be agreed after the Non-Owner Participants have been formally appointed and signed the Project Alliance Agreement. This means that the alliance 'self-approves' project deliverables after project implementation has commenced. On the other hand, in Public-Private Partnerships and traditional delivery methodologies, the scope and costs are settled prior to contract signing, and any variations to the contract are externally scrutinised to ensure VfM implications are known prior to implementation.

Therefore, it is important to evidence whether the alliance outcomes have delivered the approved Business Case requirements that were agreed between the Owner and the government.

The alliance approach should create an increased capacity to respond collectively to challenges and risks that may arise during delivery of the project. While this collective approach can provide better VfM outcomes for the right projects, the VfM reporting should be validated independently. Also, the alliance Participants should not have any editorial control over the VfM Report (although they may be asked to provide comments and feedback). This is necessary to avoid the reporting being considered self-congratulatory and its reliability discounted as a result.

Reporting of VfM outcomes in alliance contracting provides an opportunity for the alliance to demonstrate to the Owner, and in turn for the Owner to demonstrate to the government:

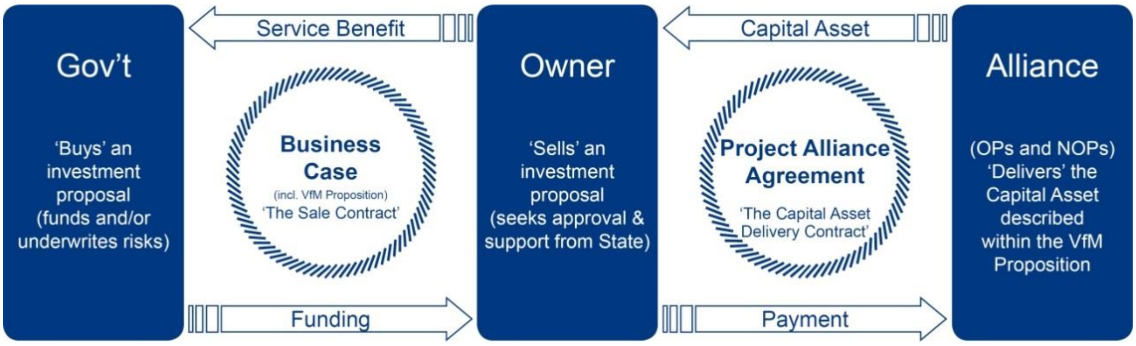
- the selection of the Proponents, the project solution, the agreed TOC and the legal and Commercial Framework were demonstrably best-in-market;
- the success and failures of the alliance in achieving the requirements of the Owner's VfM Statement, the Project Alliance Agreement and generally the alliance's objectives and activities;
- the successes and failures in delivering on the relevant objectives and requirements of the approved Business Case; and
- the lessons learnt that can be applied to future projects.

This Guidance Note is prepared on the basis that the ultimate target for the VfM Report is the government (as the 'investor') and that responsibility for the efficacy and veracity of the Report is with the Owner.

2.3 The role of VfM in government decision making

The VfM concept is central to public sector procurement decisions and is applied to assist government decision making on funding priorities. The parties involved in the VfM proposition in the alliance context can be illustrated as follows:

Figure 2: The relationships of the government to the Owner; and the Owner to the alliance



The government

In order to understand the VfM concept, it is necessary to understand the background to funding approvals by the government.

Public projects are funded by an appropriation approved by a parliament (either state or Commonwealth). The government (specifically the Treasurer) of the day introduces the finance bills to Parliament, generally on a yearly basis, leading to the passing of a financial year State Budget or Commonwealth Budget. The Budget process is led by the Treasurer who is supported by Treasury.

In cases where funds for a specific project are sourced outside the jurisdiction's budget base (e.g. Commonwealth funding of a state road or water project), the state will underwrite the risks (financial and non-financial) for the successful delivery of that project. Commonwealth funds are normally transferred to the state Treasury and not directly to the end recipient department or agency.

All government entities or agencies are legally part of the government (and therefore, the 'Owner of the project' (a common term in alliancing) is not a separate legal entity to the government).

More than a banker:

It is sometimes said that the role of the government, or more particularly Treasury, in the delivery of alliance projects is that of a *banker (*or, less frequently, an *investor)*. This description does not assist in establishing a <u>complete</u> understanding of the government/Treasury role.

When deciding whether to provide funds for a project, the government does not assess whether the return of the principal amount and payment of interest and charges is secure. Rather, the government is interested to provide a service benefit to the community, for which a Business Case has been made that funding is required. The government implements this 'investment' through one of its agencies or departments. Ultimately, the government still takes the full risk of achieving the service benefit for the community (which is normally outside the ambit of the alliance's risk profile) and delivering capital assets which are fit-for-purpose (which is within the ambit of the alliance's risk profile).

Funding decisions are made by the government of the day, with Treasury as the lead advisers In summary, the alliance is accountable to the Owner, the Owner to the government and the government to the voters.

The Owner

In the context of alliancing, the project Owner is either a department or an agency. The full or partial funding of the project may be from a state and/or the Commonwealth (which will involve a Parliamentary appropriation); and/or user charges.

Major departmental projects are normally approved by the Portfolio Minister and Cabinet following a formal whole-of-government budgetary process that is informed by recommendations from Treasury and often the Department of (the) Premier and Cabinet, and in the case of the Commonwealth, the Department of Prime Minister and Cabinet. Non-departmental projects are generally approved by the Board of the relevant agency (noting that the Board is appointed by the Government). Significant agency capital projects also require specific government approvals, typically by the Portfolio Minister and Treasurer and/or Cabinet. Such approvals will have various mandated minimum thresholds that indicatively range from $5 m to $50 m.

The Business Case is the critical document that forms the basis of the investment decision. The Business Case is prepared by the Owner, who submits it to the government for approval. Unless explicitly stated otherwise, the terms and conditions of the government's support and approval to fund the project are set out in the approved Business Case. It is not unusual for the government's budget process to impose additional requirements for a Business Case. Once approved, these additional conditions, and indeed any other subsequent approved conditions or variations, become part of the approved Business Case.

Government policies and guidelines require the Business Case to have a robust assessment of the proposed service benefit to the community, resourcing requirements (capital and non-capital) as well as a robust assessment of alternative procurement delivery options to satisfy project requirements. Therefore, the Owner will submit a Business Case that includes a request approval for both a funding allocation and its preferred procurement strategy option.

> ***The roles of the government and Owner:***
>
> To understand the roles of the government and the Owner in approving and allocating funds for a specific project, it is useful to think of the Owner as 'selling' the Business Case to the government, and the government making the decision to either 'buy or not buy' the Business Case, with consideration of other project proposals, available funding and its wider infrastructure policy objectives. In this context, the 'sale contract' is the Business Case.

The Alliance

Where the government approves a recommendation for an alliance procurement strategy, the alliance will be established to deliver the capital assets component of the approved Business Case. In some cases, an alliance will also be established to provide services associated with the operations and maintenance of those capital assets. The alliance will broadly consist of:

- Owner Participants; and
- Non-Owner Participants (**NOPs**).

The alliance must deliver the project within the parameters set out in the approved Business Case. It is important to understand the distinction between the Owner and the Owner Participants. The two are not interchangeable. The Owner (which can be a Minister, the departmental head, the agency's Board etc) may delegate certain limited responsibilities to nominated Owner Participants. However, the Owner cannot delegate its accountability to the government for delivering the approved Business Case's objectives. These objectives include both the capital project component and the service benefits to be delivered to the community in the (normally) longer term[4]. To this end, it is important that the owner defines these objectives clearly and transparently.

The interrelationships of the key parties

The government's interest is normally driven by the service benefit to the community and not by the asset solution, which is the basis upon which the alliance is formed[5]. The Owner's Business Case documents the research and analysis done:

- that identifies and dimensions the 'VfM proposition' for the community (i.e., the proposed services benefits to the community balanced against the estimated capital and non-capital costs/risks of realising those service benefits); and
- that supports a recommended procurement strategy (i.e., the best way to realise the capital assets required to enable the services benefits to be delivered);

The alliance team is appointed to deliver the capital project component of the Business Case. The team is expected to plan, design and construct the project to meet the Business Case parameters and objectives at a fair cost.[6] In undertaking its work, the alliance is also expected to apply the general concept of VfM (see chapter 3) in its decision making for the delivery of the capital project.

The Owner (or sometimes another government agency) is responsible for achieving the service benefits associated with the Business Case. The Owner is accountable to the government for the performance of the alliance.

The Sugarloaf Alliance (Victoria)

The Sugarloaf Pipeline Alliance was established by Melbourne Water in 2007. The Alliance's purpose was to construct a 71 km pipeline from Yea in northern Victoria, to the Sugarloaf Reservoir in southern Victoria.

An investment rationale of the project was to enable one-third (up to 75 gl) of water saved through the modernisation of the Goulburn Murray Irrigation District (GMID) to be delivered to Melbourne. This was a challenging project, given that the pipeline route traversed sensitive forest areas and the concerns of a number of different stakeholders needed to be addressed.

The Alliance took the risk for construction of the pipeline within the parameters of the approved Business Case, but was not responsible for the annual sourcing of water to be delivered down the pipeline from independently audited GMID water savings.

The Alliance's role was to construct enabling capital assets, but this did not include ensuring the availability of supply of (saved) water for the residents of Melbourne over the longer term.

The following illustration shows the context in which an alliance project takes place in relation to public sector governance roles.

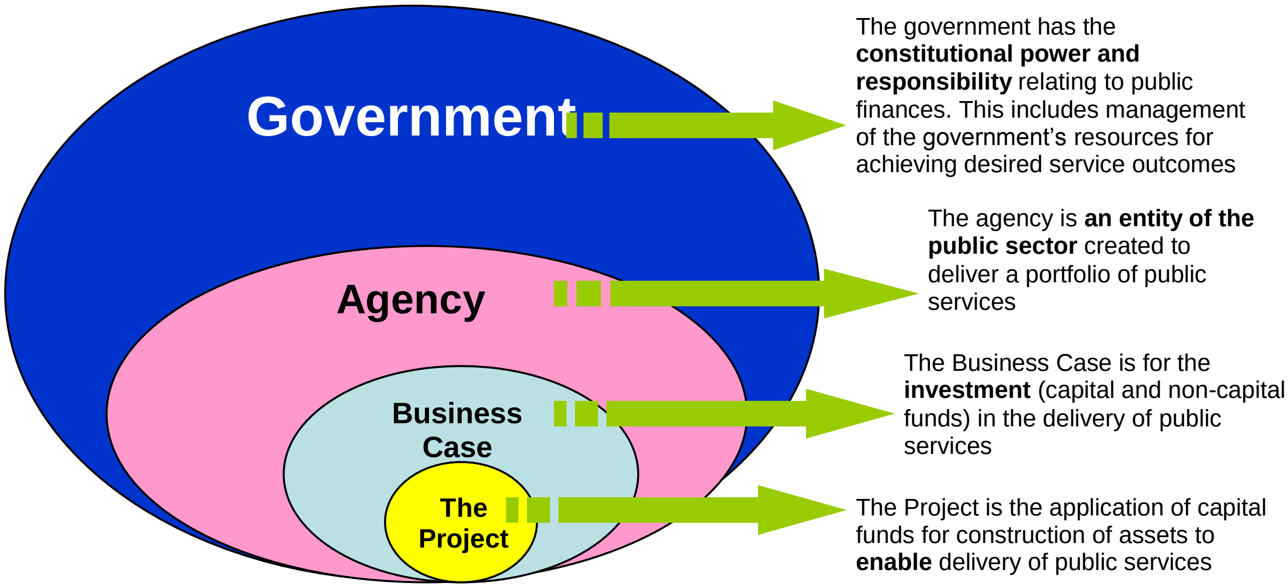
---

[4] For the avoidance of doubt, the 'service benefits' referred to here are the broader social and policy-driven objectives that attract public funding for an infrastructure project (e.g., travel time savings or lower road accident rates). In this context, they do not refer to the operation and maintenance services of the capital assets.

[5] To ensure success in a project investment, it is critical to have a clear linkage from the Government's approved service need to the project definition, project budget, tender documentation, contract awarded and to project completion. This is also recognised in Recommendation 7.1 of the Productivity Commission 2014, Public Infrastructure, Inquiry Report No. 71, Canberra, which makes the point in relation to good governance that all governments set clear and transparent public infrastructure service standards.

[6] 'Fair cost' or 'fair price' is used to denote a total project cost to the state based on the best-in-market pricing of the required supply at specified metrics of performance/quality and based on whole-of-life criteria. Fair price or best-in-market price (or for that matter lowest-acceptable-price) does not mean the 'cheapest price'.

Figure 3: The 'project' context in relation to governance responsibilities



If the Owner believes that a particular social, economic or environmental objective is important and wants it addressed as part of the capital project, then the Owner should analyse the costs, risks and benefits associated with this objective and make it part of the Business Case objectives/deliverables. Following Business Case approval by the government, any proposed change to the Business Case by the Owner may require further approval from the government, and any proposed change by the alliance from the Owner. The Owner normally needs to seek further approvals from the government if the changes are significant and outside agreed governance thresholds.

Which is the 'approved Business Case'?

The 'approved Business Case' is the initial document approved through the established government process (which can include a statutory authority's Board, the portfolio Minister, the Treasurer and/or a Committee of Cabinet), plus any subsequently approved variation to this document.

Any proposed variation to the Business Case must be approved by the Owner (as distinct from the Owner Participants in the alliance). If the changes are significant and outside agreed governance thresholds, these must be approved by the government.

Effectively, governments processes normally operate on the position that the original approver of the Business Case needs to approve any subsequent material changes to that Business Case.

3 The VfM Concept

3.1 A general definition of VfM

VfM has been established internationally by governments (including Australia and the UK) as a critical foundation of decision making in government contracting. The VfM concept is applied, inter alia, to make decisions on the allocation and expenditure of public funds for capital projects.

Definitions of VfM applied by Australian governments are generally consistent and it is unnecessary to present a wide-ranging debate on the best VfM definition. However, it is important to recognise that each statement is drafted for a particular jurisdiction and context.

This Guidance Note uses the following definition of VfM from the Victorian Department of Treasury and Finance[7]:

> **A VfM definition:**
>
> **Value-for-Money** denotes, broadly, a net measure where the required benefits (including quality levels, performance standards, and other policy objectives such as social and environmental impacts) are balanced and judged against the cost (price and risk exposure) of achieving those benefits.
>
> Generally, Value-for-Money is assessed on a 'whole-of-life' or 'total-cost-of-ownership' basis. This includes the various phases of contract period, including transitioning-in and transitioning-out.
>
> The concept of 'long-term sustainability of Value-for-Money' often applies, and this emphasises the government's focus on investment choices that ensure Value-for-Money outcomes are promoted and protected outside the contract period and over successive anticipated contracts.

It is useful to appreciate that the general concept and definition of VfM, and any specific criteria, is applied at different levels of decision making (this is discussed further in the next section):

1. *at the government level:* a VfM criteria will be applied to prioritising different Business Case submissions from agencies, across all sectors of government activity, for funding support. Final government decisions are made on these competing business cases (i.e. investment and project proposals) using also an 'opportunity cost of capital'[8] criteria;
2. *at the Agency/Owner level*: a VfM proposition will be articulated for each investment proposal subjected to a Business Case analysis prepared by the Agency. The Agency normally prepares a number of business cases pertaining to its specific sector of responsibility and will apply an internal VfM criteria to prioritise and finalise its submission to government for funding support (including project approvals);
3. *at the project management level*: consistent with the Owner's VfM Statement, a VfM criteria is developed and applied by the Owner when setting up the alliance structure including the selection of the Proponents, the legal and Commercial Framework, the TOC, and by the alliance when planning, designing and constructing its project (many choices need to be

[7] Adapted from the Department of Treasury and Finance, Victoria (DTF) 2006, *Good Practice Guidelines: Developing a State Purchase Contract Business Case*.

[8] The opportunity cost of capital refers to the cost of funding one proposal (and thereby achieving the resultant consequential benefits) set against the loss of opportunity to fund and achieve the benefits of the next best proposal.

made here on the total utility which can be obtained from a particular project action or material input[9]).

3.2 VfM is a multi-layered concept

VfM is a way of helping investment decisions to be made on an efficient, effective and economical basis that best targets the investor's priority objectives.

VfM has become an important concept in the public sector's decision-making criteria, and its broad application means that it is applied in distinctive (but consistent) ways at different stages of investment approvals, procurement processes and in project planning. The following discussion[10] and Figure 5 illustrates this layering of the VfM concept as it is applied in public sector processes, and how its application cascades from government to agency to project management levels.

Government level

(Investment decisions are made at Cabinet level following the government's budgetary process and are presented to Parliament as part of the annual government budget)

Governments need to make decisions that lead to the investment of finite public resources to those initiatives that provide the greatest impact for meeting community service needs in areas of the highest priority (where priorities are normally set out in the government's pre-election policy statements).

The nature of this decision making, with the concept of VfM applied in the broadest sense across the full ambit of the government's responsibilities, sees competing decisions on funding approvals being made across sectors (e.g. transportation vs public health vs law & order vs education vs water vs, etc) and within sectors (e.g. road A vs road B).

Government funding approval of any one investment proposal involves a judgement of the VfM case made by the agency in its Business Case. There are two important decision points at this stage:

1. whether on balance the service benefits to the community held up against the costs and risks set out in the Business Case provide an attractive investment proposition; and
2. whether this one Business Case proposal in comparison to other Business Case proposals (across other government sectors) demonstrates better VfM in a higher priority area (in effect, the opportunity cost of capital consideration).

Agency level

(Recommendations for project funding are normally made by the agency's leadership/board to the responsible Portfolio Minister for prioritisation and submission to the government budgetary process)

Service agencies are established to focus on particular sectors of government service delivery to the community. Service agencies develop long-term and short-term investment programs and specific proposals in response to community needs and the government's priorities. Specific investment proposals are analysed by the agency in business cases.

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[9] Public sector bodies, like the offices of Auditors-General, generally construe VfM in terms of efficiency, effectiveness and economy. Decisions based on a VfM criteria would consider the utilisation of resources in terms of efficiency (i.e. maximising output per unit of input); effectiveness (i.e. the outputs and outcomes contributing to achievement of stated objectives); and economy (i.e. acquiring resources of required quality/performance at minimum cost).

[10] As this Guidance Note addresses project alliances, the discussion that follows assumes that the investment proposal analysed in the agency's Business Case requires the delivery of a major capital project to achieve the promised community service benefit and that the procurement options analysis recommends delivery by alliancing. It should be noted that such assumptions are significant, as the decision to construct and own major capital asset has normally significant long-term funding imposts; and the decision to deliver a project by alliancing requires a robust and comprehensive argument.

The Business Case includes the detail required to articulate the VfM 'story' of the agency's investment submission to government.

The VfM proposition—the service *benefits* to be delivered to the community weighted against costs and risks of this delivery—should be specifically articulated in the Business Case. The following diagram is a simple illustration of the concept.

Figure 4: Simple illustration of the VfM proposition for a major road upgrade:

The Service Benefit

♦20% reduction in travel time

♦50% reduction in minor accidents

♦80% reduction in major accidents

♦80% reduction in fatalities

♦25% reduction in noise penetration into adjacent properties

♦The Blue River micro-ecosystem will be placed on a sustainable footing for the local community

♦30% reduction carbon emissions

♦$650 m economic benefit to regional industries

The call on public resources (costs/risks)

♦$500 m total capital budget (including a contingency allowance)

♦$60 m pa (Whole of Life cost impacts)

♦Business-as-usual management resources (included in capital budget)

♦Uplift on business-as-usual stakeholder management to deal with Blue River micro ecosystem ($40 m allowed for in the capital budget)

It is expected that the Agency's Business Case will fully analyse and dimension the costs, benefits, risks and opportunities involved achieving those service benefits. This analysis should be founded on the efficient, effective and economical planning and use of public resources. The Business Case should make this analysis on a whole-of-life basis. (See Chapter 4.)

Those business cases which pass the agency's own evaluation process are submitted by the portfolio minister to the government budgetary process. As all governments are faced with the necessity to ration public funding, the majority of business cases submitted by agencies to the government budgetary process are not approved.

The Owner also demonstrates VfM considerations in the selection of the preferred Proponent. Generally the Owner's decision will be based on a balanced judgement of the price (i.e. the 'headline' price quoted) and non-price factors, which may have significant implications for the final/actual outturn price paid as well as other project objectives (non-price factors include those arising from the TOC development phase, e.g., the Proponent's proposed project solution, the team capability it offers, commercial and legal arrangements, etc).

What comes first?

VfM definitions or parameters in the Business Case are the subject of agreement between the government and the Owner, and these cannot be changed by the alliance team engaged to deliver capital assets. The VfM proposition, along with the careful consideration of the project characteristics and risk profile, determines the selection of the procurement strategy that is recommended in the Business Case.

That is, the procurement method does not determine or define the VfM proposition.

Project management level

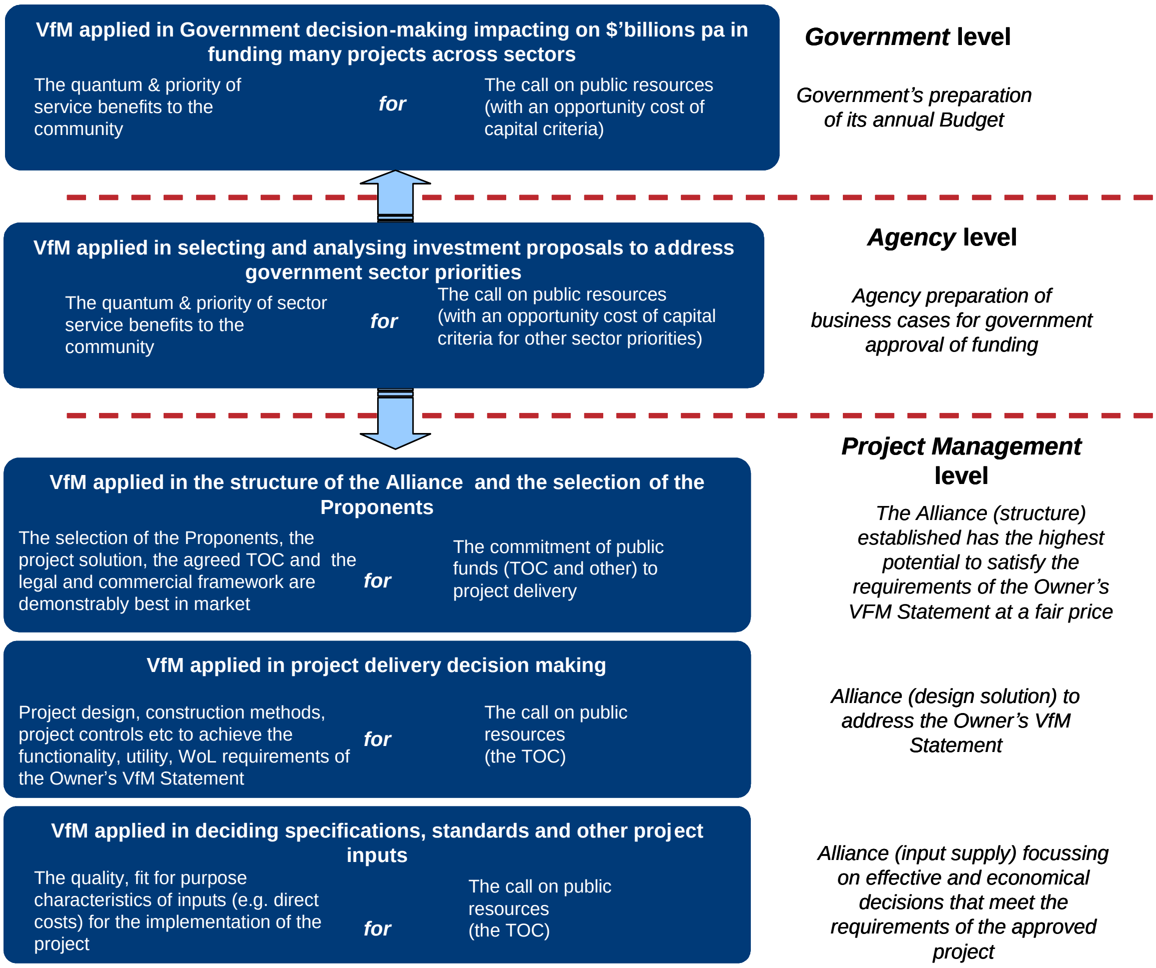
(Where project delivery is by an alliance, the alliance will work to deliver the agency's or Owner's VfM Statement, which is aligned to the Business Case approved by the government.)

Following execution of the PAA, as the Owner's Participants and the NOPs continue to plan and deliver the alliance project, there will be ongoing decisions that need to be made on details of design, construction, stakeholder management, supply of construction inputs, emerging risks, etc.

Such decisions by an alliance would often be in the nature of VfM judgements based on a balance of price (e.g. costs and risks) and non-price considerations (e.g. quality and functional specifications, Whole of Life (WoL) impacts, service benefits impacts, etc). These VfM decisions will need to be informed by the objectives and requirements of the Owner's VfM Statement/PAA and issues of affordability regarding the agreed TOC.

An ongoing question that should always inform project management is: how can I best deliver the required project outcome at the lowest cost?

Figure 5: Various layers of the VfM concept being applied



3.3 Best-for-State[11] vs Best-for Project

'Best-for-project' is a common expression that is usually defined in alliance agreements. The term is generally understood to mean that the alliance Participants direct their decisions towards the shared, collective vision and objectives of the alliance (including time, cost, quality and reputation), rather than self-interested goals (such as maximising profit). Best-for-project generally refers to actions and decisions that fit within the alliance principles developed by the alliance Participants and incorporated in the alliance agreement. A best-for-project approach is intended to drive all decision-making processes within the alliance.

In assessing projects at both the initial Business Case stage and upon project completion, the government considers VfM in a wider context than the best-for-project concept. That is, when making the decision whether to fund a Business Case, the state will apply the best-for-state concept (see section 4.2 for further discussion). This Guidance Note is prepared on the basis that all VfM Reporting will also be prepared and assessed in a manner that transcends the individual project and considers the overall government perspective. This includes ensuring that all project decisions take into account the following issues:

- the impact of project decisions on whole of life cycle costs;
- the potential for project decisions to have a benchmarking impact on other projects and/or policies;
- the financial outcome of the project should not compromise the funding of other government priority projects; and
- any impact of the proposed asset on the environment, lands and other government assets.

Scenario: What is the best for the community?

The alliance for 'Route 66' is well advanced in its planning and has taken the initiative to hold a 'community legacy workshop'. Exciting initiatives have been identified that are supported by the alliance and that will improve community amenity for many years to come. These initiatives are outside the Business Case, and will cost approximately $5 m.

The alliance workshop was facilitated on a best-for-project basis. However, when considering whether to fund the initiatives, the Owner decided that a greater public good for the state's community could be achieved if $5 m funding was instead applied to one of the high accident road intersections or railway crossings located across the state. That is, the Owner's decision to take a best-for-state approach in relation to the legacy issue took precedence over the alliance's best-for-project decision making.

3.4 Implementing the procurement strategy

It is important that the Owner's selection of a procurement strategy is driven by the project's VfM proposition (as articulated in the Business Case). The procurement strategy should not dictate the project's VfM proposition.

However, for VfM outcomes to be achieved:

> '… *the procurement strategy needs to be well planned, managed and executed. Successfully undertaking the procurement of major projects is a*

[11] The expression 'state' here is used to denote all the government entities of Australia, which include the Commonwealth of Australia and all Australian State Governments and Territories.

complex and substantial activity and resources with the relevant capacity and capability need to be deployed'. [12]

If the Owner is unable to apply sufficient and capable resources to the project, then irrespective of whether the contract is well structured, it is unlikely that optimal VfM outcomes will be recognised or understood, let alone realised (for this reason the Business Case has analysis supporting the recommended procurement strategy).

A Cautionary Note

'VfM' is not an expression that can be used to ignore the impacts of price, but should take into account both price and non-price factors.

Value-for-Money refers to 'procurement outcomes based on a balanced judgement of financial and non-financial factors relevant to the procurement'. (Quoted from Part 2, Section 9(a), the Victorian *Public Finance and Accountability Bill* 2009)

[12] 'Infrastructure procurement: delivering long term value', March 2008, HM Treasury UK Government, (page 39).

4 Public Sector Business Cases

4.1 Business Case requirements

As discussed above, Business Cases are the vehicle by which the public sector (government) makes investment decisions. They are usually produced in accordance with guidelines produced by Treasury. An example of a Treasury guideline is the *Investment Lifecycle Guidelines Business Case Version 1*, July 2008, (Victorian Department of Treasury and Finance). Although the requirements and expectations for Business Cases may vary in each jurisdiction, they have much in common and do not differ on the core principles.

Business Cases are expected to address the following two fundamental decisions that government ministers will need to make:

1. *the Investment Decision*—why is this investment a good idea?
2. *the Project Management Decision* (including the *procurement strategy decision*)—how can we best deliver the investment objectives?

1. The Investment Decision

To assist with the investment decision, the Business Case will provide details on:

- the drivers and objectives for the project
  (sometimes referred to as part of 'the *Problem*' definition, i.e., what are the current gaps and/or problems in service delivery to be addressed);
- the enabling assets and the changes (to human resources, physical resources, management systems, etc) required to address the *Problem*;
  (sometimes referred to as 'the *Solution*', i.e., how best to address the identified the current gaps and/or problems in service delivery); and
- the service *Benefits* for the community to be realised by the public.

This Business Case approach of presenting the Problem, Solution and the Benefits is illustrated in Table 2 for a major infrastructure project within the transport sector. This logic is often depicted (in greater detail) in an Investment Logic Map (ILM), and a Benefit Management Plan.[13]

The government will focus its decision making on achieving community service benefits, which are not always directly associated with the activities for which the alliance is responsible. Generally, the alliance is only responsible to deliver the enabling capital asset described in 'the *Solution*'.

13 Refer Investment Management Standard, Version 3.0, 10th June 2008, (Victorian Department of Treasury and Finance) and related documents for further detail.

Table 2: The 'investment lifecycle' terms illustrated for a rail project

Problem (current gaps and/or problems in service delivery)	**Solution**[14] (how best to realise the identified benefits)	**Benefits**
Drivers: • public transport congestion is eroding the city's liveability • existing public transport infrastructure will not support future demand. Objectives: • providing capacity to meet current and future demands.	This improvement in service level will require creation of rail and rolling stock assets.	Perceived service benefits and related KPIs • reduced impact of transport on the environment measured by a KPI of increase by 20% share of trips taken by public transport • improved liveability in the city measured by KPIs such as: – 20% increase in the % of public transport services that arrive on time – 50% increase in the frequency of services.
To assist with the investment decision, the Business Case should fully analyse and dimension the risks and opportunities of the 'Problem' and the 'Benefits'; as well as fully analyse the costs, benefits and risks of the options to achieve the 'Solution'.		

In making the investment decision, the government decision makers will want to know (from the Business Case):

1. how the investment 'Problem' and 'Benefit' fit in with government service priorities;
2. how the project will impact on the community; and
3. how much the investment 'Solution' will cost and whether it is affordable (in the total context of government priorities and programs competing for new funding).

The Project Management Decision **(including the *procurement strategy*)**

The example in Table 2 demonstrates that decision makers in government are unlikely to focus on the procurement strategy when deciding whether they will allocate public funds to 'solve' identified problems with current community services.

However, if funds are allocated for the project, Government decision makers will need to be assured that a fit-for-purpose procurement strategy and project management will be used to deliver the proposed capital asset solution, and that the Owner:

- has structured the procurement strategy and process to optimise the approved VfM outcomes at a fair price;
- has the capacity and capability to successfully deliver the solution throughout the planning, market engagement, tender selection, negotiation of the TOC (including the legal and commercial terms and conditions) and project delivery stages; and
- has a strategy and plan for project management and structures promoting successful ongoing operations.

[14] For the avoidance of doubt, the term 'solution' refers to the non-capital enablers and the capital asset enablers proposed by the Owner, rather than the design / engineering / construction project delivery solution (ie the methodology to deliver the capital asset) which is developed by the alliance Proponents. Normally, the details of the 'project solution' will not yet be determined at the time the VfM proposition is articulated.

4.2 Investment decisions are made on the basis of Business Cases

When making decisions on the allocation of resources, governments are primarily focused on enabling the delivery of services to the community. Although governments are very interested in whether the capital assets that an agency submits are needed to deliver a required community service, they do not focus on the desirability or otherwise of these capital assets in isolation of the service benefit.

The government's decision on whether to support or not support a specific investment proposal is made on the basis of a balanced judgement regarding the VfM proposition (i.e., the service benefits to the community balanced against the costs/risks of the investment proposal), and the opportunity cost of capital.

> ***The opportunity cost of capital:***
>
> This concept recognises that the government has finite resources which need to be rationed. The government's budgetary decision making process targets its highest priority areas and aims to provide the community with the optimal service outcomes within its resource constraints.
>
> Therefore, a decision to fund one project, means that other projects will fail to attract funding. This means that the service benefits associated with these projects will not be delivered to the community.
>
> The government will seek to achieve the best service outcomes for the available pool when rationing public funds. For example, consider a scenario where the government has confirmed its support of *Investment Proposal A* with a capital budget of $200 m. If the government was aware that the capital budget was to subsequently increase to (say) $250 m, it may not have approved the funding. Instead, the government may have switched its support to an alternative investment proposal that presented a more attractive VfM proposition compared to *Investment Proposal A* with a $250 m capital cost.
>
> In short, funding one project means that another project is not funded. Where 'one dollar more' is expended on one project, this means 'one dollar less' for another project.

Where an agency fails to provide a robust and comprehensive Business Case, this is problematic for government decision-making processes. It is also problematic for the Owner, as without a Business Case which adequately analyses and dimensions the costs, risks, scope and benefits of the project, the Owner is not in a position to benchmark the project deliverables that it tenders for and for which the alliance has been engaged to deliver.

Moreover, the Business Case is used as an anchor point for the Owner to ensure that cost, time and quality constraints are managed. If an appropriately detailed Business Case has not been prepared, this creates a greater risk that scope creep and budget drift (which are not supported by government) may occur. It will be a significant issue for both the government and Owner if the Business Case project budget, the Target Outturn Cost (TOC), the Actual Outturn Cost (AOC) and all other costs associated with the project delivery do not align.[15]

In its *Guidelines for Managing Risks in Direct Negotiations*, published in May 2006, the NSW Independent Commission Against Corruption (ICAC), mirrored these

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[15] The principles used in the development of a Public Sector Comparator for Public Private Partnerships can be applied to develop the cost estimates in a Business Case for an alliance project. (However, it should be noted that the Public Sector Comparator is used to decide whether a project should proceed as a PPP, whereas the Owner's Comparative TOC is used as a check on tendered TOCs following the government decision for a project to proceed as an alliance.) The option of developing an Owner's Comparative TOC (OCT) is discussed in National Alliance Contracting *Guidance Note N^{O} 5, Developing the TOC in Alliance Contracting;* Department of Infrastructure and Regional Development, Commonwealth of Australia, March 2011.

concerns when it wrote in relation to both joint ventures and relationship contracting (page 18):

> *The Commission advises that prior to conducting the process of finding a joint venture partner, agencies should complete a separate business case for the project. If the business case is not prepared until after the joint venture has been formed, the agency may be locked into an undesirable relationship or be otherwise handicapped in its ability to pursue its preferred course of action.*

The ICAC also commented in relation to some of the probity risks associated with alliance contracting and the absence of an acceptable Business Case (Appendix 2):

- *reliance on a non-adversarial approach to conflict resolution and a 'best-for-project' approach … may lead to the parties forming too close a relationship. This may in turn lead to 'capture' by the private sector proponent/s and a failure to consider the overall public interest. Capture can also be a problem if the 'partnership' is lopsided to the extent that the agency develops a dependence on the proponent/s for information and advice.*
- *Alliancing is designed for complex projects with unpredictable risks, and this does not align well with any loose and sloppy practices; nor with taking the line of least resistance.*

In short, it is important to articulate the VfM proposition in a robust and comprehensive Business Case that clearly analyses and benchmarks all the material costs, risks and benefits. These benchmarks will provide the external standards against which the achievements of the alliance will be measured in the VfM Report.

4.3 The Business Case does not have all the information

The high level drivers, objectives and benefits set out in the Business Case are essential to allow decision makers to:

- understand the merit of any one investment proposal (i.e. the VfM proposition); and
- compare investment proposals in Business Cases for different projects (i.e. the opportunity cost of capital consideration) and in relation to the government's long-term policy objectives.

However, the Business Case does not contain the level of detail that would enable an alliance to adequately plan, measure and report on its VfM achievements.

Therefore, the Owner should determine and expand on its critical requirements and expectations in the Owner's VfM Statement. The Owner's VfM Statement is explored further in Chapter 5 of this Guidance Note.

5 The Owner’s VfM Statement

5.1 The VfM Statement Process

The alliance process relies upon the Owner Participants and the NOPs working together in a collaborative manner to develop the TOC and deliver the project. Therefore, the Owner should ensure that the alliance is working on the basis of absolute clarity on the government’s/Owner’s objectives and requirements.

If an approved Business Case supports project delivery by alliancing, then the Owner should produce a ‘VfM Statement’ which includes project deliverables to be achieved by the alliance and the success criteria by which the alliance will be ultimately judged. The Owner’s VfM Statement should be a readily available reference document to the alliance throughout the project.

As the Owner’s success (and in turn the alliance’s success) will be judged by the government against the approved Business Case, this is an appropriate place to start developing the Owner’s VfM Statement. It should be developed with a two part approach:

i. Business Case level details as the starting point; and

ii. project level details that expand on the Business Case.

These two parts are discussed further in section 5.2.

The VfM Statement should be finalised before commencing any formal market engagement processes, including the release of tender documentation. The tender documents that are presented to the market, such as the Request for Proposal and the draft Project Alliance Agreement, should comprehensively reflect the Owner’s VfM Statement requirements.

All shortlisted bidders participating in the tender process should be provided with a copy of the Owner’s VfM Statement. The Owner should also consider, subject to any appropriate confidentiality agreements being executed, what additional project information (such as sections of the Business Case) can be shared where this is relevant.

If the alliance team comes to find that the Owner’s VfM Statement has gaps or is not sufficiently comprehensive, they should seek direction from the Owner. If the Owner is unable to address the gaps and the alliance performs planning work to address these, the alliance should seek prior approval from the Owner before any such planned works are implemented.

5.2 VfM Statement Requirements

The Owner’s VfM Statement allows the Owner to clearly and succinctly document how VfM will be defined and measured on an alliance project.

Appendix A contains a template for the Owner’s VfM Statement.

i. The Business Case is the starting point

The VfM Statement should take the Business Case as its starting point and provide the following advice and directions:

- the compelling reason for the investment;
- the benefits the investment is expected to deliver to government;
- the expectations the Owner/government held when it approved the alliance procurement strategy (that could be met by an alternative strategy);
- total amount of investment approved in Business Case that pertains to the work of the alliance;
- project scope and deliverables;
- time commitments for investment;

- the primary risks to the success of the investment and proposed ownership of risks;
- external conditions affecting the investment; and
- environmental and community obligations.

The Owner may also consider providing to the short-listed Proponents:

- relevant sections of the *Business Case*, so that the alliance Proponents can fully appreciate the wider context of relevant business requirements and their importance to the Owner;
- the *Investment Logic Map*, ideally as part of the Business Case, in order to further assist the alliance Proponents to understand the wider business context of the investment and to develop fit-for-purpose solutions;
- the *assumptions, constraints and the drivers of VfM for the project*, to ensure that the alliance can plan to respond accordingly; and
- a *representative to work with the alliance* Proponents who is fully informed and understands the Business Case VfM proposition, in order to ensure the short-listed alliance Proponents are appropriately advised as they develop their final tender project proposal (including the TOC), and have a good understanding of possible risks in terms of the Business Case objectives.

The Owner needs to fully articulate its requirements for addressing 'whole-of-life planning' in the alliance's project. Normally, the Owner has established corporate standards and principles regarding whole-of-life that apply across all of its capital and infrastructure works. The Owner needs to ensure that there is sufficient clarity in the VfM Statement on any trade-off between increased upfront capital investment and reduced long-term operational savings. This is necessary to enable the alliance to plan successfully to meet the Owner's expectations and budget.

Also, the Owner's VfM Statement may include requirements for the alliance to achieve other benefits, such as improved quality in earthworks (on a whole-of-life basis) or improved traffic management. The alliance will need to develop appropriate metrics to assess whether these benefits have been achieved.

ii. Expanding on the Business Case to project level details

The alliance will need to understand the Owner's expectations that impact VfM outcomes in greater detail than may be set out in the Business Case.

For example, while the Business Case may analyse and cost 'cultural/heritage' issues, there may be further detailed information that the Owner can share with the alliance. Similarly, it would be inappropriate for the Owner to set out its established corporate standards for the construction of new assets in the Business Case (although the Business Case should address any proposal by the Owner to uplift such established business-as-usual standards.)

The VfM Statement should also address those project planning and delivery areas where the Owner wants a role to ensure that the VfM requirements are achieved. For example, the Owner may have governance standards and protocols, general 'business rules', corporate standards and other preferences. Examples of what the Owner may include in the VfM Statement are:

- procurement preferences for the alliance's supply chain;
- expectations regarding alliance governance;
- required reporting mechanisms;
- delegated authority of Owner Participant and powers of the ALT;
- scheduled milestones and key project deliverables;
- expectations regarding processes to be used to verify prices including TOC scrutiny and verification and the role of the Independent Verifier;

- expectations regarding the quality of the work the subject of the alliance;
- how proposed changes to the VfM Statement will be managed;
- expectations regarding skills transfer from private sector Participants to public sector and mechanisms for achieving this;
- KPIs for the alliance;
- legislative compliance and approval requirements;
- performance targets and benefit management plan;
- environmental, stakeholder and community obligations or requirements;
- communication strategy; and
- risk management strategies for the alliance.

Although the Project Alliance Agreement will set out the detailed requirements in relation to these matters, it is still useful for the Owner's specific rules and preferences to be broadly referenced in the VfM Statement. For example, the details regarding performance measurement and KPIs for the alliance can be included in the VfM Statement so that the context and links to the Business Case objectives are clearer.

Moreover, the Business Case may have aggregated the risks, costs, and benefits of many other project matters, and these can also be (disaggregated and) addressed in the VfM Statement. For example, the following may be included as appropriate:

- dealing with existing cultural heritage assets and planning restrictions;
- addressing specific environmental values, regulations, guidelines, etc;
- addressing specific social issues;
- professional services required by the alliance;
- reducing whole-of-life costs in line with corporate standards;
- governance structures within the alliance and between the alliance and the Owner;
- applying corporate standards to the alliance project;
- applying regulatory standards to the alliance project;
- applying industry standards to the alliance project;
- delivering the Owner's requirement for project specific uplift on its business-as-usual standards;
- delivering the construction program (direct costs and other indirect);
- ownership and handling of plant and equipment;
- stakeholder management;
- the application of public sector standards (e.g. the Victorian Public Administration Act 2004); and
- providing creative/innovative solutions and ideas that reduce cost or are cost neutral.

5.3 Business Case estimates and final actual costs

Where possible, an Owner should have a clear and comprehensive understanding of how the cost estimates in the Business Case have been established, including any assumptions which underpin those cost estimates. This is important so that the Owner is well positioned to:

- identify whether the Target Outturn Cost (TOC) developed for the alliance project is reasonable;
- manage contingency and escalation provisions in the project during the delivery phase; and
- at the conclusion of the project, comprehensively assess the financial outcomes of the project against the Business Case estimate.

This Guidance Note has been prepared based upon the following assumptions:

1. ***Business Case estimate:*** The estimates of the project costs contained in the Business Case are normally risk adjusted. The Business Case would also include a Base Cost estimate (risk free), plus a transparent estimate of contingency or risk. It should be recognised that there will be a difference between the Business Case project estimate of all costs associated with project delivery (i.e. the 'estimated total project cost') and the Owner's budget for the alliance.
2. ***Target Outturn Cost (TOC):*** The TOC is the estimate of project costs for delivery of the alliance works by the alliance. The TOC is typically a P50[16] estimate of the project. The process for developing and approving the TOC is critical, as it forms the basis for assessing the VfM outcome (including the painshare/gainshare arrangement).
3. ***Actual Outturn Cost (AOC):*** The AOC for the project is the actual total cost for delivery of the alliance works by the alliance (inclusive of NOP fees and reimbursable costs to the NOPs and the Owner).
4. ***Actual Total Project Cost:*** The actual total project cost includes the AOC plus any additional costs which sit outside the AOC but arise as a result of the commercial arrangements agreed in the PAA (e.g. gainshare/painshare and any performance pool payments); plus all other Owner costs outside the alliance.

The Owner's VfM Statement should clarify:

- the basis for estimates within the Business Case;
- the basis upon which the Owner anticipates the TOC to be developed and approved; and
- where possible, how contingency on the project will be defined and managed (i.e., whether certain risks will be retained by the Owner).

This clarity is important as the VfM Report, which is expanded upon in Chapter 7, should provide a thorough reconciliation of any movements in project budgets and costs (both overruns and underruns), including the basis of such movements and the approvals given for changes.

As note above, the Owner's VfM Statement should note the expectations the Owner/government held when it approved the alliance procurement strategy over other alternatives. One such expectation is that, theoretically, alliancing should give the team greater flexibility and ability to collaborate and innovate, which in turn should enable better control of costs and risks throughout the alliance lifecycle. Therefore, from a VfM perspective, the expectation is that alliancing should provide the Owner with a more attractive financial outcome, for the same non-financial and

[16] There is a 50% confidence level that the outturn cost will be less than the P50 value, given the risks accounted for in the model.

quality measures, than traditional, fixed price contracting. The Owner's expectations in this regard should be noted in the VfM Statement, and later the VfM Report should comment on whether these expectations were realised in the context of items 1 to 4 above being reconciled.

6 Planning to Optimise VfM outcomes

6.1 Public sector leadership

In considering how the public interest will be served and the approved VfM proposition will be delivered at a fair price, the Owner should be mindful of a number of observations and conclusions made by public sector commentators. In particular, the following examples should be noted:

- '… reliance on a non-adversarial approach to conflict resolution and a 'best-for-project' approach … may lead to the parties forming too close a relationship. This may in turn lead to 'capture' by the private sector proponent/s and a failure to consider the overall public interest. Capture can also be a problem if the 'partnership' is lopsided to the extent that the agency develops a dependence on the proponent/s for information and advice'.[17]
- 'Alliancing is designed for complex projects with unpredictable risks, and this does not align well with any loose and sloppy practices; nor with taking the line of least resistance'.[13]
- [the Owner] …'should act as an intelligent customer by sharpening the approach to negotiations'.[18]
- [the Owner should ensure it gets a good deal from the NOPs by] '…discussing with the suppliers all the elements of the contract price, including the level of service, timescale of the assignment skill mix of the supplier's team and how costs are to be renumerated'.[14]

These observations highlight the importance of the Owner taking leadership and actively structuring and directing the alliance to its (and the government's) investment objectives in order to achieve the agreed VfM proposition. Primarily, this direction will occur through the VfM Statement, but will also occur through the Owner's active participation in the alliance.

6.2 VfM from the Owner's advisers[19]

Owners typically engage a variety of advisers to assist with establishing and implementing an alliance. Whilst the fees associated with such engagements can be substantial, there may be even greater implications for the VfM outcomes of the alliance project.

The VfM Report should include information on the VfM outcomes the Owner has achieved as a result of engaging its advisers.

Public officials are equally required to ensure that they optimise the VfM obtained from the engagement of advisers. Just as the capacity and capability of the Owner has a critical impact on the alliance outcomes, the quality of the Owner's informed management of its advisers will also have a critical impact on the quality of the advisory services obtained.

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[17] ICAC [NSW Independent Commission Against Corruption], 2006. *Guidelines for Managing Risks in Direct Negotiation (Appendix 2).*

[18] 'Getting value for money from procurement – How auditors can help', National Audit Office, Office of Government Commerce, UK (page 4).

[19] This section is based on an unpublished document; Advice to departments/agencies regarding proforma for seeking a request for proposal for consultants on Partnerships Victoria projects, June 2004, Department of Treasury and Finance, Victoria.

The track record of advisers:

The track record of advisers in successfully:

- assisting to empower the Owner;
- transferring knowledge;
- making available nominated individuals as agreed;
- providing its advisory services on time;
- prudently managing advisory costs; and
- consistently providing industry leading and tailored advice,

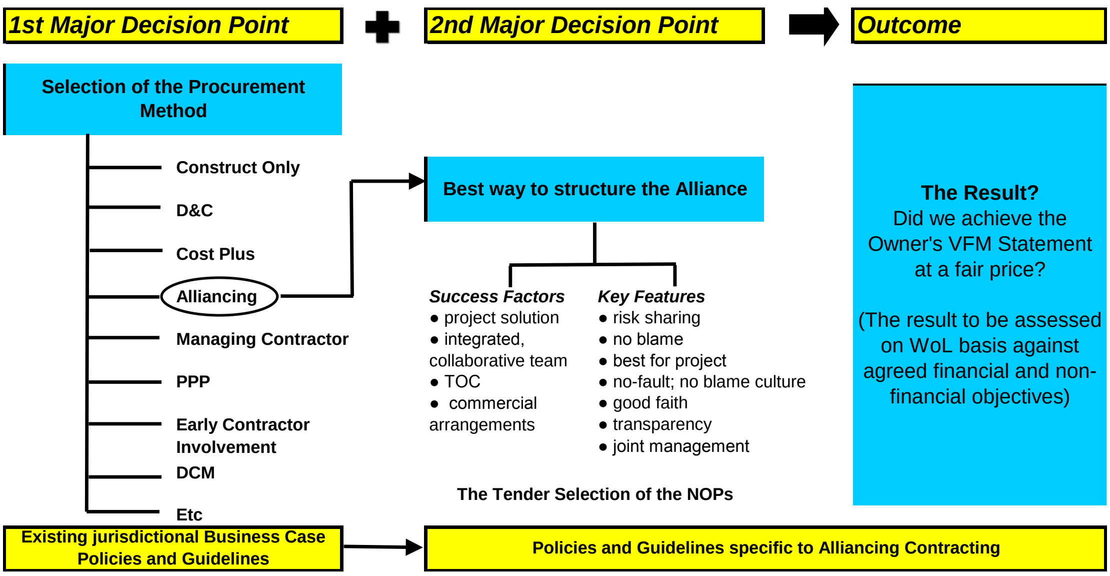
should be established as the key selection criteria in the Owner's procurement processes.

6.3 Ensuring the alliance structure optimises VfM outcomes

This Guidance Note presumes that the Business Case had included a thorough analysis of procurement methods and clearly demonstrated that an alliance is the optimum delivery method.

Further details on the structure, terms and conditions upon which the market will be approached also need to be documented by the Owner prior to the tender process. The Owner should have a contract structure that optimises VfM outcomes.

The two major decision points in establishing the alliance are illustrated below:



In *Infrastructure procurement: delivering long term value* (March 2008, the UK's HM Treasury wrote (page 48):

> '*Performance in the successful delivery of outcomes is strongly dependent on the skills of the client, not simply on the contract structure. The skills required include those which are needed to create an effective engagement with the market, to structure the right deal and an underpinning contract to support and to drive continuous value from the arrangements throughout its life'*.[20]

Therefore, the capability of the Owner to recognise the true incremental value the alliance should deliver compared to the alternatives, is a key driver of VfM and effective procurement.

[20] Infrastructure procurement: delivering long term value' March 2008 HM Treasury UK Government, (page 48).

At the completion of the alliance, the VfM Report should not only comment on the effectiveness of the alliance structure in relation to the performance of the alliance delivering the project in accordance with the terms and conditions of the PAA; it needs to also includes an assessment of whether these agreed legal and commercial terms and conditions provided for a best-in-market actual outcome.

6.4 Governance arrangements and decision making

As covered above, the Owner's and the government's requirements for a project are detailed within the Business Case, which in turn are incorporated in the Owner's VfM Statement. Material changes to these requirements can only be made by the original approving authorities. The Owner must ensure that governance arrangements within the alliance do not compromise this principle. In particular, the Project Alliance Agreement should ensure the alliance (including the Alliance Leadership Team) adhere to this principle.

Appropriate mechanisms should be implemented to ensure that any material changes to budget, time and quality are referred to the Owner for approval. These mechanisms (including what will constitute a material change) should be agreed and incorporated as part of the Project Alliance Agreement. Also, the alliance should understand that the Owner will need to comply with external governance requirements, and may need to seek further approval for certain material changes from the government. It is not the role of the alliance to make changes to the project that are outside the approved Business Case and the Owner's VfM Statement.

If material changes need to be made to an approved Business Case, then the Owner may need to resubmit the Business Case to government. If revisions to the Business Case are triggered by a budget overrun, the Owner should work with the alliance to develop options to address this. These can include:

- reducing scope to achieve approved budget;
- additional funding to achieve approved scope;
- staging the project into independent components; and
- termination of the alliance.

Alliances are structured so that the Owner Participants are part of and committed to the alliance. There should be a clear separation in the alliance's governance structure between the Owner and the Owner Participant, and this should also be reflected in the workflow of the alliance.

Another aspect of governance is to ensure that the processes around planning, procurement and delivery of projects to achieve the 'right' outcome (including the VfM proposition) are transparent. To this end, various governments have established a 'Gateway Review Process' that aligns with the Victorian model (refer to www.gatewayreview.dtf.vic.gov.au). This is an independent process that reviews high-risk and selected medium risk-projects and programs throughout their life cycle, helps to ensure projects are on track for success and provides quality assurance to the Owner.

The Government's risk profile under alliance contracts means that alliances are regularly subject to the Gateway Review Process. The Gateway Review Process may be tailored to take the unique characteristics of alliancing into consideration.

6.5 Planning the alliance

When planning the alliance, the Owner's VfM Statement should help govern the following activities:

- working through the scope of services for the alliance;
- drafting tender documentation and implementing tendering processes;
- defining the tender selection criteria;

- determining the minimum expectations and requirements for achieving ‘success’;
- defining the criteria for gamebreaking performance;
- establishing KRAs, KPIs, TOC, AOC, budget, etc;
- selecting and defining the role of independent advisors; and
- undertaking Gateway Reviews.

6.6 Minimum Conditions of Satisfaction (MCOS)

As with any procurement methodology, there is an expectation that the alliance team members and their behaviours will meet certain levels of performance across a number of key areas related to the project’s delivery. The minimum performance requirements for the alliance are referred to as the ‘Minimum Conditions of Satisfaction’ (MCOS) for Key Result Areas (KRAs). These are included in the Request for Proposal (RFP) documentation for Proponents to respond to and be assessed against during the selection process. For example, these may include project deliverables aligned to the approved Business Case and Owner’s VfM Statement in areas such as:

- functionality;
- quality/workmanship;
- cost;
- schedule;
- stakeholder engagement;
- sustainability; and
- others.

The Owner’s VfM Statement should include detailed definitions of MCOS and clearly identify whether an ‘outstanding/gamebreaking performance’ is required and the performance reward (if any) associated with this (which should reflect the actual value the Owner places on achieving exceptional performance for non-price objectives). It is important that the Non-Owner Participants are aligned with the Owner’s expectations for their level of performance.

The Owner will also need to determine whether the alliance needs to pursue an ‘outstanding/gamebreaking performance’ and/or project outcomes that are innovative in nature (i.e. ‘a paradigm shift’, ‘not done before’) to satisfy particular project deliverables in accordance with the Business Case objectives. This decision should not be made by the alliance.

6.7 Lessons Learnt

One of the key benefits of alliancing is that the skills of Participants can be collaboratively applied to deliver better than business-as-usual outcomes. In order to maximise VfM outcomes, the lessons learnt within the alliance should be accurately detailed in the VfM Report. The alliance should develop and apply processes to ensure that the Participants’ knowledge and experiences are captured as part of the day-to-day business of the alliance. These can then be used to assist other alliance projects (and potentially other procurement methods) to optimise VfM outcomes.

7 The VfM Report

7.1 VfM Report Purpose

The purpose of the VfM Report is to:

- ensure that the outcome (to date) of government's decision to invest in the Business Case (i.e. the Investment Decision and the Project Management Decision) is adequately reported upon;
- ensure that the Owner's project expectations (as expressed in the VfM Statement) are adequately reported upon;
- judge the performance of the alliance; and for the government to understand the Owner's effectiveness in structuring the alliance effectively; and
- allow the VfM outcomes arising from individual alliances to be reviewed and assessed to ensure that the alliance process is subject to continuous improvement (i.e. capture any lessons learnt that can be fed back into other projects).

The VfM Report is provided to the government by the Owner.

7.2 When to Report

The VfM Report should be finalised within six months of the alliance achieving practical completion. However, the collection of data and information for the VfM Report should commence well before then. Continuous monitoring and progressive reporting should occur along the way to assess whether the MCOS are being achieved and the alliance's performance trends. It is considered best practice to:

- clearly document the mechanism for gathering data and information against the VfM Statement for the purpose of producing progress reports and the VfM Report; and
- collate data, information and documentation to support the VfM Report on an ongoing basis.

The progressive reporting should provide to the Owner both favourable and unfavourable analysis of whether project objectives and VfM outcomes are being achieved by the alliance. The Owner will then determine the appropriate response to such analysis through its internal governance processes.

(The Owner may feel it necessary to issue a supplementary VfM Report if significant issues arise during the defect liability period.)

7.3 Preparing and reviewing the VfM Report

The Owner is accountable for producing the VfM Report. As covered above, the process for producing the VfM Report commences with the Owner's approved Business Case and relies on a clearly articulated Owner's VfM Statement.

The VfM Report should not be a 'self-analysis' of performance by the alliance and should be prepared in a manner that avoids any conflicts of interest. As observed by others:

‘*External review of quality assurance and Key Performance Indicators is particularly necessary under Alliances for good project governance*’.[21]

It is therefore expected that the VfM Report will be impartial and be developed on behalf of the Owner independently of the alliance. It is also important for the VfM Report to be independently validated by parties separate from the alliance. Such validation of the VfM Report would usually be undertaken by an expert adviser[22] who has been separately engaged by the Owner.

The Project Alliance Agreement should set out the alliance Participants’ reporting requirements generally and for the VfM Report.

As the VfM Report is ultimately presented to the Treasurer or the Minister for Finance (as one of the government’s representatives), Owners are encouraged to involve Treasury or the Department of Finance in the drafting process.

7.4 Benchmarking costs

It is challenging to demonstrate VfM in the absence of full competition. In *Infrastructure procurement: delivering long-term value* (March 2008), the UK’s HM Treasury wrote (page 39):

> ‘*4.16 Competition (and, indeed, contestability) is a fundamental driver of value for money and productivity performance. [Reference; Competitive Edge: Does Contestability Work?, The Serco Institute, 2007] Vigorous competition strengthens incentives to innovate and ensures that resources are allocated efficiently. By encouraging the private sector to innovate, reduce prices and improve the quality and choice of goods and services, it is also the most effective way of ensuring that the taxpayer receives a fair deal.*
>
> *4.17 Competition should also be a key driver in delivering value for money through procurement, and as such any movement in procurement strategy or delivery model away from a competitive route, such as Alliancing or exclusive partnering, should only be agreed following a thorough analysis of the benefits afforded and when they can be clearly demonstrated.*
>
> *4.18 The European Public Procurement Directives provide for value for money to be obtained through competition. A report commissioned by the European Commission [Evaluation of Public Procurement Directives, Europe Economics, 2006] estimates that the directives led to an overall price benefit of between 2.5 and 10 per cent in 2002.’*

If the process for establishing the alliance omits any stage in the procurement process that is based on price competition between two or more parties, then the VfM Report needs to evidence how the non-competitive approach has provided additional VfM to the government.

In such non-competitive processes it is also common for an Independent Estimator to be used for the purpose of benchmarking costs. The scope of services for an Independent Estimator may range from a thorough first principle review of the comprehensive cost plan developed by the alliance, to simple checking against global rates and reviewing arithmetic calculations. This later scope of services would not be considered appropriate for benchmarking purposes; moreover, in these cases the role requested of an Independent Estimator is more likely to involve an estimation of a settled scope of works. On the other hand, contractors’ in-house

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[21] Manley, K. And Blayse, A. (2004) ‘Innovation in the Australian Road Construction Industry – Making Better Use of Resources’, New Zealand Institute of Highway Technology, Towards Sustainable Land Transport Conference, Wellington, New Zealand. 21–24 November.

[22] An appropriate expert adviser would be a specialist with in-depth understanding of how infrastructure costs are built-up, current market conditions for construction and design and the commercial workings of NOPs in an alliance project. This adviser can be either an external or internal appointment, and in all cases there must be a clear independence from the alliancing outcomes.

systems will usually verify scope and related costings to give their Boards confidence that the project has been planned and contracted in accordance with its corporate benchmarks. It is recommended that Owners use an Independent Estimator, prior to the market engagement process, to perform a similar scope of services to that usually undertaken by contractors.

> ***A Cautionary Note***
>
> In all commercial transactions, public officials should strive to ensure that the state's legal position and commercial exposure is transparent and well understood; and that the terms and conditions of the legal and Commercial Framework offer the best-in-market position. This means that the project briefings provided to the Owner and Government Ministers should at least match the quality, robustness and insightfulness of the briefings provided by the contracting parties to their CEOs/CFOs and Boards.
>
> Without this level of knowledge and awareness, it will be difficult for the Owner to accurately report the VfM outcomes of a complex alliance project.

7.5 VfM Report contents

As a minimum, the VfM Report should contain:

- the VfM proposition approved in the Business Case;
- the Owner's VfM Statement;
- an assessment of whether the agreed legal and commercial terms and conditions in the PAA provided for a best-in-market actual outcome;
- an assessment of the VfM outcomes the Owner has achieved as a result of engaging its advisers;
- a reconciliation between what was required (i.e. the Business Case and the Owner's VfM Statement) and what was delivered;
- a reconciliation between the Owner's approved capital budget for the alliance with the Target Outturn Cost and the Actual Outtun Cost;
- a full reconciliation of the Business Case Budget estimate with the actual total project cost to the Owner/government;
- an assessment of the risks that eventuated on the project in comparison to expectations within the Business Case;
- an account of the expenditure on risk provisions and contingencies;
- the benefits delivered from innovation (with verification);
- reporting on scope changes and their effect on capital expenditure and operational expenditure;
- reporting on compliance issues and tracking of approvals;
- comment on how well the alliance managed the movement of project budget and costs; and
- lessons learnt.

Appendix B contains a VfM Report Template.

8 Acronyms and terms

Acronym/term	Description
AOC	Actual outturn cost, being the total cost of the project delivered by the alliance
ALT	Alliance Leadership Team
BAU	Business-as-usual
DTF	Department of Treasury and Finance
ERC	Expenditure Review Committee (of Cabinet) This is the usual name given to the cabinet committee that takes the lead on behalf of government in determining the state/Commonwealth Budget
HM Treasury (UK)	Her Majesty's Treasury
H/M/L (consequences)	high/medium/low
ICAC	Independent Commission Against Corruption
ILM	investment logic map
KRI	key result indicator
KRA	key result area
MCOS	minimum conditions of satisfaction
NOP	Non-Owner Participant
PAA	Project Alliance Agreement
TCE	target cost estimate
TOC	Target Outturn Cost, being the estimate of project costs within which the alliance will deliver the project
VfM	Value-for-Money

Appendix A: The Owner's VfM Statement Template

Note to Owners completing the VfM Statement

The VfM Statement allows the Owner to clearly and succinctly document how VfM will be defined and measured on an alliance project.

The VfM Statement should include project deliverables to be achieved by the alliance and the success criteria by which the alliance will be ultimately judged. It needs to be aligned to the approved Business Case for the project, and completed before the engagement process commences.

This template is provided to assist the Owner with the drafting process. It can be expected that the Owner will make modifications and additions to this template to cater for the individual characteristics of alliance projects.

PART A: The Owner's Project Objectives

The information set out in Part A should be extracted from the approved Business Case.

1 OBJECTIVES AND BENEFITS OF THE GOVERNMENT'S INVESTMENT

1.1 Project background

Provide a brief description of:

1.1.1 The investment

[Insert]

1.1.2 The alliance project

[Insert]

1.2 Link to Government Policies

Outline key policy reasons for proposed investment by the government.

[Insert]

1.3 The service benefits of the investment

What are the service benefits that the government's investment is expected to deliver to the community?

[For further information regarding 'service benefits', refer to sections 2 and 3 of Guidance Note 4.]

1.4 Objectives specific to the alliance

The government has granted approval for the project to be delivered as an alliance. What are the relevant objectives in terms of cost, time and quality that apply to the alliance for this project?

[Insert]

2 PROJECT COSTS AND SCOPE

2.1 Overall funding of the Business Case

What is the amount of funding that has been approved for the government's overall investment? *(Note: The government's overall investment may include a series of projects involving both alliance and non-alliance delivery and significant non-capital deliverables.)*

Please identify any relevant assumptions that are relevant to this funding and the cost estimates in the Business Case.

[Insert]

2.2 The alliance's scope of works

Describe the scope of works that the funding is intended to cover.

[Insert]

2.3 The Owner's project budget for alliance Works

What is the Owner's project funding that relates to the alliance works? Breakdown of direct/indirect costs, contingencies, escalations, NOPs fee, etc (excludes costs that will be outside the AOC such as gainshare/painshare entitlements).

[Insert]

2.4 Developing the TOC

Outline the anticipated process for development, verification and approval of the Target Outturn Cost.

[Insert]

2.5 Independent verification of ongoing project costs

Describe how project scope and costs will be reviewed, verified and managed during the alliance term.

Note: If an Independent Estimator will be engaged, explain the scope of the Independent Estimator's role.

[Insert]

2.6 Benchmarking project costs

How will the establishment of the Target Outturn Cost and then ongoing project costs be benchmarked? Describe the proposed approach to benchmarking.

[Insert. Refer to section 7.4 of Guidance Note 4.]

2.7 Requirement for outstanding / gamebreaking performances

Is 'outstanding' or 'gamebreaking' performance required to satisfy the Business Case objectives (refer to Part B, section 1.2(b) below)? If so, identify (if any) the reward for exceptional performance (i.e. better than MCOS) that the Owner places on the alliance achieving that exceptional performance for non-price objectives.

[Insert]

3 PROJECT RISKS AND RISK MANAGEMENT

3.1 Key project risks

Describe the key (design and 'engineering' works) project risks, the proposed risk allocation (i.e. who will bear responsibility for each of these risks?) and how these risks will be managed.

[Insert.]

3.2 Community, stakeholder and environmental risks

Outline key community, stakeholder and environmental risks and obligations, and how these will be managed.

3.2.1 Community risks

[Insert.]

3.2.2 Stakeholder risks

[Insert.]

3.2.3 Environmental risks

[Insert.]

3.3 Key external risks

Identify and describe any external risks to the project, and how these risks will be managed.

[Insert.]

3.4 Project timelines

Provide an outline of the proposed time frame for the project (including any key project milestones), and describe the applicable time commitments for the Owner and the alliance.

[Insert.]

3.5 Critical interfaces

Identify any external conditions and/or timelines that are critical for the success of the alliance project.

3.5.1 Critical project dependencies

[Insert.]

3.5.2 Interfaces with other government investments and procurement activities

[Insert.]

4 KEY SUCCESS FACTORS FOR THE ALLIANCE

4.1 Key success factors for the project

Provide a brief summary of the Owner’s critical project outcomes that will determine judgements of project success or failure.

[Insert.]

4.2 Key success factors for the alliance

Provide a brief summary of the Owner’s critical expectations for the alliance itself that will determine judgements of its success or failure.

[Insert.]

Part B: The Owner’s Standards and Requirements

The information in Part B is informed by the Owner’s requirements for structuring the alliance and its general corporate standards.

5 GOVERNANCE

5.1 Governance framework

Describe the framework for governance of the alliance, including how proposed changes to the Owner’s VfM Statement will be managed.

[Insert.]

5.2 The Owner’s reserved powers

Identify the discretions/powers (if any) which are reserved for exercise by the Owner.

[Insert.]

5.3 Governance practices and standards

Identify and describe the corporate governance practices and/or standards (if any) that the Owner expects will be applied to the project.

[Insert.]

5.4 The Owner’s Representatives

Identify the role and position of key agency personnel that the Owner expects will be applied to the project.

[Insert.]

5.5 Stakeholder communications

Identify the role and responsibilities of the Owner and the alliance in respect of communicating with stakeholders.

[Insert.]

5.6 Legislative compliance and approval requirements

Outline the legislative and regulatory regimes that may apply to the project and that need to be managed by the alliance.

[Insert.]

6 PERFORMANCE MEASUREMENT

6.1 The alliance's KRAs/KPIs

Identify the KRAs/KPIs for the alliance required by the Owner to fulfil the objectives of the Business Case, as well as any additional ones required by the Owner.

[Insert.]

6.2 Performance Measurement

Describe the regime for performance measurement.

[Insert.]

6.3 Requirements for Outstanding/Gamebreaking Performances

Identify and describe the criteria and rewards (if any) for outstanding/gamebreaking performance.

[Insert.]

6.4 Innovation

Identify and describe the Owner's expectations for delivery of innovation by the alliance.

[Insert.]

7 QUALITY AND STANDARDS

7.1 Applicable corporate specific standards

Identify any relevant corporate or organisational specific standards that the Owner expects will apply to the alliance project (e.g. established technical specifications or design standards for network integration or whole-of-life outcomes).

[Insert.]

7.2 Applicable (regulatory) technical and engineering standards

Identify any relevant regulatory and/or statewide/nationwide building construction standards that the Owner expects will apply to the alliance's design and works.

[Insert.]

7.3 Applicable public sector standards

Identify any applicable public sector standards that the Owner expects will apply to the alliance. *(Note: For example, these may include travel costs, accommodation, government policy and guidelines on probity and the Owner's procurement policy.)*

[Insert.]

7.4 Outside Business-as-Usual standards

Identify any project specific requirements that are outside the Owner's business-as-usual standards or practices (e.g. community engagement, sustainability of assets).

[Insert.]

7.5 Quality metrics

Describe the expected regime for measuring the quality of the works performed by the alliance.

[Insert.]

8 REPORTING

8.1 Progress reports

Describe the expected processes and audiences for reporting on the progress of the alliance, including achievement against this VfM Statement.

[Insert]

8.2 Progressive information required from the alliance

Identify the inputs required from the alliance in relation to VfM reporting, including how the provision of such inputs will be managed (e.g. timing).

[Insert]

9 PROFESSIONAL SERVICES

9.1 The Owner's independent advisers

Where relevant, identify the professional services to be engaged by the Owner in relation to its management of the alliance.

[Insert]

9.2 The alliance's engagement of professional services

Identify and describe the Owner's preferences and any procurement requirements related to the alliance's engagement of professional services.

[Insert]

Appendix B: Value for Money Report Template

Note to Owners completing the VfM Report:

The purpose of the VfM Report is to:

- report back to the government on the outcome/s from its decision to invest in the Business Case (i.e. the Investment Decision and the Project Management Decision)
- ensure that the Owner's project expectations (as expressed in the VfM Statement) are adequately reported upon
- to ensure that the alliance process is subject to continuous improvement.

This template is provided to assist the Owner with the drafting process. It can be expected that the Owner will make modifications and additions to this template to cater for the individual characteristics of alliance projects.

Sign off

<place before Executive Summary>

	Name	Signature	Date
Report Author			
Senior Executive (Agency)[23]			
<Others as required>			
Independent Verifier			

This report has been prepared in accordance with Guidance Note No.4. The report summarises the Value-for-Money achieved on the above Project.

Enquiries regarding the report are to be directed to:

<INSERT>

<Note: You should reference key supporting documentation in the body of the report. If not appended to the VfM report, it should be readily available from the report contact.>

[23] This is a senior executive from the Agency (independent from the alliance) that the Owner has appointed to manage the preparation of the Report on its behalf.

1 EXECUTIVE SUMMARY

Provide a summary of whether the project achieved/is achieving:

- The Owner's capital project objectives;
- The best price for the right scope; and
- The Owner's standards and requirements (as set out in the Owner's VfM statement).

[Note: The executive summary is a stand-alone part of the report.]

2 BACKGROUND

2.1 The Owner's VfM Statement

Provide a broad summary of the Owner's VfM Statement (refer to Appendix A), and any changes from the Owner's VfM Statement that was provided prior to engagement of the alliance.

[Note: This should be aligned with the approved Business Case.]

2.2 Reporting

(a) Describe the processes for progressively reporting on the alliance's performance that were used by the alliance.

(b) Identify and explain any differences between these processes and the expectations for reporting set out in the Owner's VfM Statement.

3 ACHIEVING THE OWNER'S PROJECT OBJECTIVES

3.1 Business Case Requirements

(a) Provide a brief description of the capital 'solution' as set out in the Business Case.

(b) Identify and explain any key differences between the capital solution in the Business Case and the capital asset delivered by the alliance.

(c) Provide a description of the 'Problem', 'Benefits' and 'Solutions' proposed in the Business Case and explain how the alliance has achieved (or will achieve) the Benefits and Solutions.

(d) Identify the key changes that have occurred in relation to the Benefits and Solutions identified in the Business Case (including any outputs and outcomes).

[Note: These changes may have arisen from a technical, functionality, financial and/or risk perspective.]

3.2 Scope of Works requirements

Provide a summary of each of the following in the table set out below:

(a) the Scope of Works for the alliance set out in the Business Case and Owner's VfM Statement (which should be the same);

(b) the Scope of Works that was actually delivered by the alliance;

(c) the changes to the Scope of Works and how these scope changes were managed by the alliance and, where relevant, approved by the Owner/government; and

(d) the cost impact of the change to the Scope of Works (capital and/or operational expenditure).

It is not intended that a detailed description of the Scope of Works be provided below. The table should only include the key capital items (or elements) of the Scope of Works, as referred to in the Business Case and the Owner's VfM Statement.

Element of Scope of Works in Business Case	Element of Scope of Works delivered	Reasons for change and how change managed	Cost impact of change (operational and/or capital expenditure)	Approved? (Y/N)

3.3 The Alliance Structure

Comment on the effectiveness of the alliance structure in relation to the performance of the alliance in delivering the project objectives.

Provide an assessment of whether the agreed legal and commercial terms and conditions in the PAA provided for a best-in-market actual outcome.

4 ACHIEVING THE RIGHT PRICE

4.1 The Owner's Business Case estimate for the alliance vs TOC vs AOC

Provide a reconciliation of the Owner's funding allocation for the alliance (which should be the estimate in the Business Case) with the Target Outturn Cost (TOC) and the Actual Outturn Cost (AOC). Also provide reasons for any discrepancy between the three (a 'causal analysis').

A summary reconciliation should be provided in a tabular form as follows, with addition information should be provided outside the table as required.

Item	Business Case estimate	TOC	AOC	Differences	Causal Analysis
Reimbursable costs for NOPS: Direct Costs: Cost report line A Cost report line B Etc Subtotal 1 Indirect costs: Cost report line M Cost report line N Etc Subtotal 2 Total reimbursable costs for NOPs ***Reimbursable Costs for Owner***: Cost report line X Cost report line Y Etc					
Total reimbursable Cost Estimate					
Escalation Costs					
Contingency					
Insurance allowance					
NOPs Fee					
Total Alliance Costs					

Notes:

1. *If there has been more than one approval of the Business Case and/or the TOC originally approved for the project, provide details all approved versions/revisions of the Business Case and the Owner's approved funding for the alliance and/or the TOC.*
2. *All costs should be reported in nominal dollars as this is the standard presentation of project budgets.*

4.2 The Owner's total estimated project cost vs actual total project cost

Provide a reconciliation of the Owner's total estimated alliance project cost (which should be the estimate in the Business Case) vs the actual total project cost. Also provide reasons for any discrepancy between the Business Case and the actual figures (a 'causal analysis').

A summary reconciliation should be provided in a tabular form as follows, with addition information should be provided outside the table as required.

Item	Business Case estimate	Actual Costs	Difference	Causal Analysis
Alliance Costs (AOCs): Reimbursable Costs to NOPS: Reimbursable Costs to Owner: NOP Fee: Other: **Total**	*Copy totals from table in Section 4.1*	*Copy totals from table in Section 4.1*	Refer to table in Section 4.1	Refer to table in Section 4.1
Owner Costs outside the alliance: Land purchase: Investigations: Pre-PAA Costs to establish the alliance: Internal Costs: 'Side' Costs: Other: **Total**				
Other Costs outside the AOC but arise from the alliance: Gainshare/Painshare entitlements Other: **Total**				
Total Project Costs				

Notes:

1. *If there has been more than one approval of the Business Case, provide details of all approved versions/revisions of the Business Case estimate for the alliance.*
2. *All costs should be reported in nominal dollars as this is the standard presentation of project budgets.*

4.3 TOC adjustments

Provide details of any adjustments to, or other movements of, the TOC during the alliance, including the reasons for the relevant adjustment. *(Note: This may require details to be provided in an Appendix to the VfM Report.)*

4.4 Risk provisions and contingencies

(a) Provide full details of expenditure on risk provisions and contingencies, including any transfers.

(b) Identify any project related expenditure that was not included as part of the TOC.

4.5 Price verification and role of Independent Estimator

(a) Identify the Independent Estimator (IE) and describe the process that was followed for selecting the IE.

(b) Describe the scope of works for the IE both prior to and following the approval of the TOC, including how often the IE is/has been required to review and/or verify project costs during the alliance.

(c) What reports will be/have been received from IE? (*Note: These reports should be included as an attachment to the VfM Report.)*

4.6 TOC Development

(a) How did the TOC development process achieve a 'best-in-class' cost estimate for the 'right' scope of works?

(b) What processes were applied during the TOC development stage to ensure price competitiveness with suppliers and subcontractors?

4.7 Selection process

(a) If the alliance was engaged following a competitive selection process (including price of works as a key selection criterion), what evidence is there that a best-in-market competitive price was obtained?

(b) If competition on the price of works was not a key selection criterion, provide details that evidence how the non-competitive price approach has provided additional financial and non-financial benefits to the government.

4.8 Innovation

(a) Provide details of any cost savings and/or improved financial outcomes delivered by the alliance through innovation, including a reconciliation of any savings against the TOC.

(b) Provide details of any improved non-cost KRAs delivered by the alliance through innovation.

5 RISK MANAGEMENT

5.1 Key project risks

Identify and provide a summary of each of the following in the table set out below:

(a) the expected key (design and 'engineering' works) project risks identified in the Business Case;

(b) the project risks that eventuated and how these were managed by the alliance; and

(c) the project risks which did not eventuate (if any), and how these were avoided and/or mitigated by the alliance.

Key project risk in Business Case	Did the risk eventuate?	How the risk was managed, avoided and/or mitigated	Actual cost impact of risk event

5.2 Community, stakeholder and environmental risks

Identify and provide a summary of each of the following in the table set out below:

(a) the expected community, stakeholder and environmental risks to the project identified in the Business Case;

(b) the risks that eventuated and how these were managed by the alliance; and

(c) the risks which did not eventuate (if any), and how these were avoided and / or mitigated by the alliance.

Community/stakeholder/environmental risk in Business Case	Did the risk eventuate?	How the risk was managed, avoided and/or mitigated	Actual cost impact of risk event

5.3 External risks

Identify and provide a summary of each of the following in the table set out below:

(a) the expected external risks identified in the Business Case;

(b) the risks that eventuated and how these were managed by the alliance; and

(c) the risks which did not eventuate (if any), and how these were avoided and / or mitigated by the alliance.

External risk in Business Case	Did the risk eventuate?	How the risk was managed, avoided and/or mitigated	Actual cost impact of risk event

6. NON-COST PERFORMANCE

Report on the assessed performance of the alliance against the non-cost KRAs/KPIs set out in the Owner's VfM Statement (indicating the MCOS requirements and exceptional performance requirements (if any)).

Non-cost KRA/KPI (Owner's VfM Statement)	Was it modified in the Project Alliance Agreement? (If yes, provide details of change)	What was the assessed performance?	Comments

7. RISK OR REWARDS OUTCOMES

Report on the Risk or Reward outcomes of the alliance.

8. GOVERNANCE AND ASSURANCE

8.1 Governance framework

(a) Provide details regarding how the alliance applied the governance framework set out in the Owner's VfM Statement. Identify any key differences between the governance framework in the Owner's VfM Statement, and the governance practices that were actually adopted by the alliance.

(b) Provide details regarding the processes that were used by the alliance for exercise of the Owner's reserved powers/discretions, and identify any VfM issues related to:

(i) how the Non-Owner Participants provided relevant information to the Owner;

(ii) the Owner's reliance on professional advice to exercise its reserved powers/discretions; and

(iii) the efficiency of the process (e.g. any adverse impacts on project timelines).

(c) Comment on the role of the governance framework to manage the alliance and in the outcomes achieved by the alliance. Identify positive and neutral performances.

8.2 Professional services

(a) Provide details regarding the processes that were used by the alliance to engage professional services. Explain any differences between the Owner's preferences and any procurement requirements relating to professional services identified in the Owner's VfM Statement, and the processes that were actually used by the alliance.

(b) Comment on the role of professional services in the outcomes achieved by the alliance. Identify positive and neutral performances.

(c) Provide an assessment on the VfM outcomes the Owner has achieved as a result of engaging its advisers.

8.3 Insurance

(a) Provide details regarding the process used to determine the insurance regime and the effectiveness of the alliance's insurance regime.

[Note: This includes listing any claims and the outcomes of those claims.]

(b) Comment on the role of the insurance regime in the outcomes achieved by the alliance. Identify positive and neutral performances.

9 KEY SUCCESS FACTORS

Provide a summary of the key success factors for the alliance identified in the Owner's VfM Statement and how these were met (or failed to be met) by the alliance.

10 COMPLIANCE ISSUES AND APPROVALS

10.1 Compliance

What standards (if any) applied to the alliance other than those identified in the Owner's VfM Statement? Complete the table below and provide additional commentary (if relevant) to identify and explain any compliance issues that arose during the alliance.

Applicable standard	Compliance? (Yes or No)	Comments
Corporate standard		
[insert]		
Regulatory standard		
[insert]		
Public sector standard		
[insert]		
Outside BAU standard		
[insert]		

11. APPROVALS

What approvals were planned for and gained during the establishment and implementation of the alliance? Complete the table below and provide additional commentary to explain any difference between the planned and actual approval dates.

Activity	Decision Marker (s)	Planned Approval Date	Actual Approval Date	By Whom?	Comments
Budget					
Quality parameters					
Time requirements					
KRAs					
KPIs					
Risk					
Identification and Selection of Owner Participant/Representa tives on the alliance					
Tender Decision					
TOC					
Frequency, format and content of VfM reports					
TOC: Basis of Estimate					
Development of Owner's VfM strategy					
Procurement plan for construction phase					
Role of benchmarking through alliance life					
Project Proposal/Plans prepared in respect of: i) Scope/ specification ii) Detailed Execution Plan iii) BCAR Report[24] iv) KRA validation report v) Alliance Management Plan vi) Team/Culture Development plan vii) Completion report viii) Compensation audit plan ix) Project reporting x) Any other plan requiring approval					

[24] For additional information on the Business Case Alignment Report (BCAR); see the National Alliance Contracting *Guidance Note N^{O} 5, Developing the TOC in Alliance Contracting,* Department of Infrastructure and Regional Development, Commonwealth of Australia, April 2011

12. LESSONS LEARNT

12.1 The government perspective

Identify the lessons learnt from the alliance in relation to:

(a) preparing Business Cases; and

(b) dealing with any project challenges to realising the ‘service benefits’ the overall government investment is expected to deliver.

12.2 The Owner perspective

Identify the lessons learnt from the alliance in relation to the Owner’s role and management of the investment (specifically, the Owner’s role in delivering the alliance project).

[Note: For example, the lessons learnt may relate to achieving the right price, achieving the right scope or implementing the right governance arrangements.]

12.3 Other lessons learnt

Identify improvements (if any) that could be made to further enhance alliance contracts for similar projects, including any improvements to the selection and evaluation process.

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