

No.	Refer.	Issue	Further commentary /suggested modification
1	General	General comment	The document shows a very good understanding of, and provides very useful insights into, government thinking and processes associated with project funding.
2	General	Opportunity to take advantage of the alliance process to improve Government investment decision making	<p>The proposed approach treats an alliance as a single-stage delivery mechanism (like a D&amp;C). In doing so it fails to take the opportunity to use the Project Development Phase (PDP), which is unique to alliancing, to improve Government investment decision making. The Owner must prepare the Owner’s VFM Statement without any input from the (future) NOPs. This requires the Owner to develop cost estimates without the benefit of the NOPs input. By the end of the PDP the Owner has a much more reliable estimate of outturn costs (whether single TOC or dual TOC). The PDP is a significant cost outlay for the Owner. We suggest that there should be more flexibility in the process to take advantage of this PDP investment – specifically:</p> <ul style="list-style-type: none"> <li>– Consider the Owner’s VFM Statement as a document that evolves with the alliance life cycle. The initial Owner’s VFM Statement is prepared by the Owner with no input from the (future) alliance. At this stage the Owner seeks the go ahead (from the State) for the PDP only – using the language of Figure 2 (page 8) of Guidance Note 4, the Owner is “selling” to the State the benefit of securing better more robust information on the costs and other aspects of the project, and seeking funds to undertake this preliminary work (typically between 4% to 8% of the eventual TOC).</li> <li>– The next big decision comes at the end of the PDP. By now the Owner is selling the full project investment proposal, armed with much better information a much higher confidence level on the cost. Only at this stage does the State make a decision on whether or not to invest in the delivery of the project.</li> </ul> <p>This is much closer to how the private sector uses alliances, albeit with far less formality than is (necessarily) required in public sector procurement. It makes sense to have the flexibility to take advantage of the PDP in this way, even if it is not appropriate/ needed in every instance.</p>

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3	General	Improving decision making (2)	<p>Following on from the previous point, Figure 2 and associated discussion (roles of State, Owner and Alliance) only works as DTF would like if all costs are known to a budgetary level of accuracy prior the development phase (PDP) – i.e. prior to doing the detailed planning and estimating work. There has to be a valid case for the Owner, having better quantified costs and benefits during the PDP – particularly in relation to project options – to re-engage with the ‘State’ (i.e. DTF) re a revised business case, so that the State can re-engage in the funding decision. The alternative is for business cases to carry very large contingencies so that (prior to doing several months of detailed planning) there is 80-95% probability (section 5.3) that the TOC / AOC will be within the approved business case budget. This will systematically mislead the State re the likely cost of alliance projects (or motivate Owners to spend the contingency on extras...)</p> <p>Clearly the State needs to make trade-off decisions between competing spend demands (section 4.2) but choices would be better informed at ‘P50’ level than ‘P95’. It would arguably be better for the Owners’ business case initially to seek preliminary funding for the PDP based on an expected ‘P50’ outturn, then re-engage with the State re a refined business case (or alternative cases, with cost/benefit options) when at the project proposal decision-point with a much reduced range of uncertainty. This requires the State to recognise alliance business cases as different constructs compared to D&amp;Cs and take advantage of that difference.</p> <p>The document includes a brief exploration on re-submission of business case in Section 6.4; we would support a process that would facilitate a productive interaction between this principle and the Gateway process – which is foreshadowed by “<i>The Gateway Review Process will be specifically tailored to take the unique characteristics of alliancing into consideration</i>” (p25) and may require further detail on how this will work in practice.</p>
4	General	General comment	<p>The provision of templates for the Owner’s VFM Statement and the VFM Report is very welcome. We caution that this could lead to an overly bureaucratic approach where complex reports are written by Alliance teams but may not be read, or if they are read, have no impact on any decision making. It would be undesirable for the process to become formulaic.</p> <p>We suggest that a couple of worked examples would help show how value has been demonstrated in ways that are meaningful to the central agencies.</p>

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5	General	Capturing benefits	<p>The document doesn't fully articulate the 'benefit' issues relating to social or political risks which are often pivotal to selecting an alliance delivery method. There are references to "primary risks... external conditions... environmental and community obligations" etc on p20-21, but little guidance re how to "value" these. Unlike the original North Sea oil platforms, government infrastructure projects in Australia aren't generally delivered via alliances because of extreme technical risks (i.e. \$ costs that may outweigh benefits). Even when benefits can be financially quantified (e.g. the "service benefit" mentioned in Fig 4) the reason or value proposition offered by alliancing is more likely to be avoidance of political or stakeholder-related risks – the ability to deliver the project either more quickly or with better outcomes for affected stakeholders (i.e. not <i>what we build</i> but <i>how we do it</i>) than would be possible with a hard-money framework. Whilst the project objectives (mentioned on P6 etc.) will include the management (i.e. avoidance) of such risks, how can the VFM equation 'value' such outcomes? All of these considerations are non-financial. The proposed VFM framework is predominantly financial (in Appendix B non-cost issues are just one of 11 sections).</p> <p>DTF's understandable objection to cost over-runs needs to be balanced by recognition that there may be valid community-driven reasons to increase the expenditure on a project – that the community may prefer doing things "right" than "cheap" (the attributes of 'rightness' being determined by the context of each project). This factor alone can have a significant bearing on cost benchmarks. This may also mean that alliances possibly should be benchmarked against other forms of delivery for performance in non-financial areas.</p>
6	General	Use of 'tender' throughout document	The language of 'tendering' relates more directly to D&C contracts with a very different relationship between the participants. For alliancing, it is more common and more appropriate to refer to 'proposal' and suggest that the word 'tender' be replaced with 'proposal' throughout the document
7	Table 1, page 6	Lack of distinction between PDP and delivery phases of alliance	<p>The approach should split alliance delivery into two parts – the Project Development Phase (PDP) and the Project Execution Phase (PEP).</p> <p>The approach should also allow flexibility for alliance to revisit/clarify VFM statement during the PDP. (See comments at item 2 above)</p>
8	s2.2, page 7	<i>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.</i>	It is not clear if this is adopted who will be preparing the VFM Report – if it is the owner representatives in the Alliance, and the proposed approach to the process outlined in this document is adopted, there is a risk that it will only restate the owner's views outlined in the business case, and therefore will not derive the benefit of genuine input from the non-owner participants.

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9	5	<i>Following Business Case approval by the Government, any proposed change by the Owner may require further approval from the Government, and any proposed change by the Alliance from the Owner and the Government</i>	This implies that further approval processes will be required if there are changes in scope. The processes for this could be lengthy (e.g. if Cabinet approval is required) which may impact on the ability of an Alliance to deliver the program of work. We believe this step needs further consideration and articulation of how it will work in practice. A related concern is that this may imply that any TOC underruns may be considered by central Government as available to reapply to other projects. This would be a change from current practice where underruns are shared between the participants and provide an incentive for Alliances to drive cost savings (and by extension improve value for money).
10	Page 13	<i>It is expected that the Business Case will fully analyse and dimension the costs, benefits and risk profile of the call on public resources, as well the risks and opportunities for achieving those service benefits through applying the identified “solution”.</i>	This imposes a requirement on the owner to fully cost the project without the benefit of the NOP input during the PDP. Inevitably, for more complex projects, Business Cases are going to be based on unreliable costing information. The result is an inflexible approach to the Business Case costings that fails to take advantage of the alliance framework. As raised in the QMCA feedback on the “In pursuit of additional value” report, this pushes the NOPs back to the back-end of the delivery cycle.
11	Page 17	<i>“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” (Quote from NSW ICAC)</i>	We believe this is not relevant to this document. Contracts include options to terminate for convenience which allows the State to respond if it is found that an agreement is undesirable. We also believe that the notion of ‘capture’ is driven at its base by fear, where the Alliance method tries to build on opportunities and develop organizations from a positive base.
12	Page 19	<i>All shortlisted bidders... should be provided with a copy of the Owner’s VFM Statement... If the Alliance team believes that the Owner’s VFM Statement has gaps or is not sufficiently comprehensive, they should seek direction from the Owner</i>	We support this suggestion on the basis that it provides for an open, and therefore stronger, relationship between an owner and the potential non-owner participants.
13	Page 21	Suggested inclusions in a VFM statement, including ‘KPIs for the Alliance’	It may be premature to include the KPIs here, and the owner may not have complete information for selecting the KPIs. Further, the process of the Alliance forming the KPIs (as currently occurs in the PDP phase) is an important part of building commitment and ownership for the performance standards.

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14	Page 22	<i>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 how contingency on the project will be defined and managed (that is, whether certain risks will be retained by the Owner).</i>	The last point requires the Owner to decide on allocation/retention of risks. While it may be appropriate for the Owner to set a broad expectation, the decision on which risks should be shared (and which retained solely by the Owner) should be an outcome of a TAE workshop, not imposed by the Owner. This would seem to impose a more transactional approach to alliancing and a loss of some of the key benefits of the alliance process as practiced to date.
15	Page 23	<i>'by discussing with the suppliers all the elements of the contract price'</i>	This quote is not relevant to alliance procurement methods, where there is no notion of a 'contract price'. We suggest this last dot point be deleted.
16	Page 24	Major decision points	The "Best way to structure the alliance" including the list of points underneath is a simplification of what actually happens in the alliance life-cycle. Refer to general comments (item 2 above)
17	Page 26	<i>"The Owner's VFM Statement should be clear regarding whether the Alliance needs to pursue "outstanding / gamebreaking performance" to satisfy Business Case objectives and whether there is an additional cost associated with this"</i>	This is also a good statement. Our experience is that owners should carefully evaluate their expectations of the Alliance and the possible costs of meeting those expectations. This section would benefit from some further exploration to guide owners on (a) when outstanding performance would be desirable, and (b) when it would be acceptable to the State for an Alliance to not be set gamebreaking goals.
18	Page 26	Context of MCOS	Minimum Conditions of Satisfaction (MCOS) is a well-established term referring to the standard of performance required in the objectives/outcomes of the alliance. It is used here incorrectly to refer to hurdle criteria for NOP selection in the same context as gamebreaking. This is a misunderstanding of how the term MCOS is used in alliancing and potentially confusing.
19	S7.1 page 27	VFM report context/purpose	Referring to the first two points, we suggest that there should be equivalent requirement for VFM reporting (with equivalent objectives) for non alliance projects
20	Page 27, s7.2	Progressive reporting	This section briefly mentions progressive reporting. Good practice is that reporting is progressive and this section should explore some of the processes adopted for recent projects to maximise the benefit and relevance of ongoing reporting. We can provide examples from recent projects if this would be helpful.