

Queensland Reconstruction Authority

Interim Report

on the

Value for Money Pricing Model (Day Labour) Trial

by Queensland Local Government Authorities

February 2014



Queensland Reconstruction Authority, February 2014 (updated for public release June 2014)

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1. Introduction

Purpose

The purpose of this report is to provide an interim assessment of the effectiveness of the Value for Money (VfM) Pricing Model (Day Labour) Trial by Queensland Local Government Authorities as agreed between the Commonwealth and Queensland Governments.

Outcomes

Based on the initial assessment of the VfM Pricing Model trial, the use of Day Labour has enabled Queensland Local Government Authorities (LGAs) to deliver projects at a cost below comparable market values. Assessment of the applications received from 30 councils at the time of this report indicates an estimated program saving of \$126 million will be achieved under the model, resulting from the leveraging of \$55 million in day labour resources, within an overall expenditure of \$1.04B.

Feedback from councils indicates that the use of day labour enables delivery of savings by leveraging lower labour, material and equipment costs; utilising local knowledge in design and construction techniques; and mobilising more quickly on the ground, avoiding the time lags common when sourcing contractors.

Toowoomba Regional Council's decision to use its internal labour force to carry out restoration works has seen the final expenditure on some projects reduced by up to 45 per cent without any loss in the quality of the reconstruction.

"Our crews work for standard local government awards, not contractor rates. Our crews who know the area and do this sort of work every day were able to get in and deliver the work cheaper and faster than if we'd used external contractors."
Mayor Paul Antonio, Toowoomba Regional Council.

Cassowary Coast Regional Council decided to use its own internal labour force and plant in conjunction with local contractors to carry out works on Old Cardwell Road, achieving a saving of approximately 42 per cent.

"When working in the wettest area in Australia, greater flexibility through utilising day labour translates to efficiency. Works can continue through the wet season with wet weather and delays not costing the project a cent as the workforce simply moves on to Council's normal operational activities. A contractor in the same circumstances would have far greater disestablishment and reestablishment costs and may need to maintain overheads such as camp facilities for a longer period."
Mayor Bill Shannon, Cassowary Coast Regional Council.

Cook Shire Council's decision to use its internal labour force to carry out works on remote Bamaga Road has resulted in savings of approximately nine per cent.

"The remote location would have been challenging for contractors not familiar with our region, whereas our own crews are able to deliver the work to a tighter timeframe and far more cost effectively than any alternative."
Mayor Peter Scott, Cook Shire Council

The Queensland Reconstruction Authority (QRA) is currently finalising the acquittal of completed works for 2011 and 2012 (re-damage) events. Councils are still in the delivery phase for 2011 and 2012 (re-damage) events, with all works to be completed no later than 30 June 2014. The QRA will be in a position to provide a final report into the effectiveness of the VfM Pricing Model trial for these works in the final quarter of 2014.

In relation to 2013 events, eleven (11) councils have submitted applications to utilise the model, with one (1) council approved and the other ten (10) councils under assessment by the Authority. A further 30 councils have indicated an intention to utilise day labour for various elements of their works but are yet to submit an application for assessment. It is anticipated that further savings will be realised for 2013 disaster events. The assessment of the effectiveness of the trial for 2013 events will be finalised once these works have been completed, which is not expected to occur before late 2015.

2. Background

Queensland Reconstruction Authority within the National Partnership Agreement

The Queensland Reconstruction Authority (QRA) was formally established in February 2011 to take on full management and administration of the State's NDRRA program for the 2010-11 Queensland Floods and Cyclone Yasi events. QRA's role was subsequently extended to include prior events from 2007 to 2010, followed by the later events in 2011, 2012 and 2013.

QRA is currently administering a combined reconstruction program of works estimated at \$14 billion across multiple disaster events from 2007. The program is the most significant disaster reconstruction program in Australia's history and the first time that a single Authority has been given responsibility to coordinate the delivery of multiple reconstruction efforts.

Within the total program administered by QRA, the National Partnership Agreement (NPA) covers the 13 cyclone and flood events that occurred between November 2010 and March 2013 (NPA Events) with a total damage estimate of \$11.2 billion.

The 13 cyclone and flood events within the NPA are highlighted as follows:

Total Program managed by QRA \$14.0 billion program	2010 and Prior Events that have open submissions for damage: <ul style="list-style-type: none">• South East and North Coast Queensland East Coast Low, August 2007• South West Queensland storms and flooding, 23-30 November 2007• Central Western Queensland storms and flooding, 23-30 December 2007• South East Queensland East Coast Low, 27 December 2007 - 7 January 2008• Queensland Monsoonal flooding, January 2008• Queensland Monsoonal flooding, February - March 2008• South West Queensland flooding, June 2008• Queensland storms and associated flooding, 16-22 November 2008• Queensland Monsoonal flooding and Tropical Cyclone Charlotte and Ellie, January - February 2009• South East Queensland Low, May 2009• Queensland Bushfires, September – October 2009• South West Flooding, 20 – 25 November 2009• Northern, Central and South West Queensland Flooding, 22 December 2009 to 8 January 2010• Queensland Monsoonal Flooding and Tropical Cyclones Olga, Neville, Ului and Paul, January to April 2010
	NPA Events \$11.2 billion program

2011 Events:

- South West Queensland Low and Associated Flooding, September 2010
- 2010 South East Queensland Flooding, 9-12 October 2010
- Queensland Flooding and Tropical Cyclones Tasha and Anthony, November 2010 to February 2011
- Severe Tropical Cyclone Yasi on 2 February 2011
- Queensland Monsoonal Flooding Event, 28 February 2011,
- South West Flooding, April 2011

2012 Events:

- Localised Heavy Rainfall Northern Queensland, October 2011
- Southern Queensland Flooding, November to December 2011
- South East Queensland Heavy Rainfall and flooding, 23- 26 January 2012
- Western Queensland Tropical Low, 27 January to February 2012
- Far Northern Queensland Tropical Low, 3-4 February 2012
- North Coast Queensland Storms and flooding and East Coast Hybrid Low, 24 February - 7 March 2012
- Northern and Far Northern Queensland Heavy Rainfall & flooding, 15 March 2012
- East Coast Low, 22 March 2012

2013 Events:

- Tropical Cyclone Oswald and Associated Rainfall and Flooding, 21-29 January 2013
- Central and Southern Queensland Low, 25 February - 5 March 2013*
- Longreach Flood – 18 February 2013*
- Queensland Bushfires, August to October 2011 (2012 Event)
- South West Queensland Wildfires, 21 December 2012
- Far Northern Queensland Bushfires, late October - December 2012

* Pending agreement to extend the NPA to include two additional 2013 events – Longreach Floods, 18 February 2013 and Central and Southern Queensland Low, 25 February -5 March 2013

Day Labour

There are two funding models for day labour that are administered by the QRA. The first is known as the Local Government Capped Model and the second as the Local Government Value for Money Pricing Model. Both these models arose due to the high level of damage that occurred in Queensland as a result of the 2011 events, and the potential that existed to provide cost savings and deliver works more quickly on the ground. The details of each model are explained in more detail in the following sections.

Local Government Capped Model Guidelines

On 26 February 2011, as a result of the unprecedented devastation from the floods and Cyclone Yasi, the Deputy Prime Minister and Treasurer announced a Queensland Local Council Funding Package to assist the recovery of disaster affected communities.

Under the package, a \$50 million allocation was made available to help councils with labour costs. Prior to this announcement, day labour costs were deemed ineligible for grant assistance under NDRRA.

The funding recognised the circumstances of many councils in Queensland, which were facing difficulty in accessing contract labour due to their distance from major centres.

The allocation arrangements for day labour costs to local councils under the assistance package were developed by the QRA in consultation with the Local Government Association of Queensland, with the QRA to administer the funding.

The allocation arrangements take into account a council's location and its capacity to absorb day labour costs within existing budgets without significant adverse consequences. Payments under this model were capped at either \$1 million or \$1.25 million for eligible councils.

In some instances, labour costs for Indigenous councils are covered by a range of Commonwealth and State programs. For Indigenous councils, additional day labour costs beyond those funded by State and Commonwealth Government programs were deemed eligible for a value up to \$1.25 million.

The criteria for the councils eligible under the capped model are available on the QRA website at www.qldreconstruction.org.au/ndrra (*Day labour advice for councils*).

Local Government Value for Money Pricing Guidelines

The QRA submitted the Local Government VfM Pricing Model on 21 December 2011 for consideration by the Commonwealth Government. The Commonwealth Government subsequently agreed on 21 June 2012 to allow reimbursement of day labour for disaster reconstruction under NDRRA, where program savings could be demonstrated, as assessed by the QRA. This was approved as a trial specific to Queensland.

The VfM Pricing Model trial was approved following the natural disasters in 2010-11 with the intent of delivering time and cost savings across the reconstruction program. The intent of the model was to demonstrate that the use of internal resources for particular reconstruction projects by an LGA would result in superior cost and timeframe outcomes.

This arrangement applied to the restoration of essential public assets damaged by the natural disaster events of 2011 covered by the NPA.

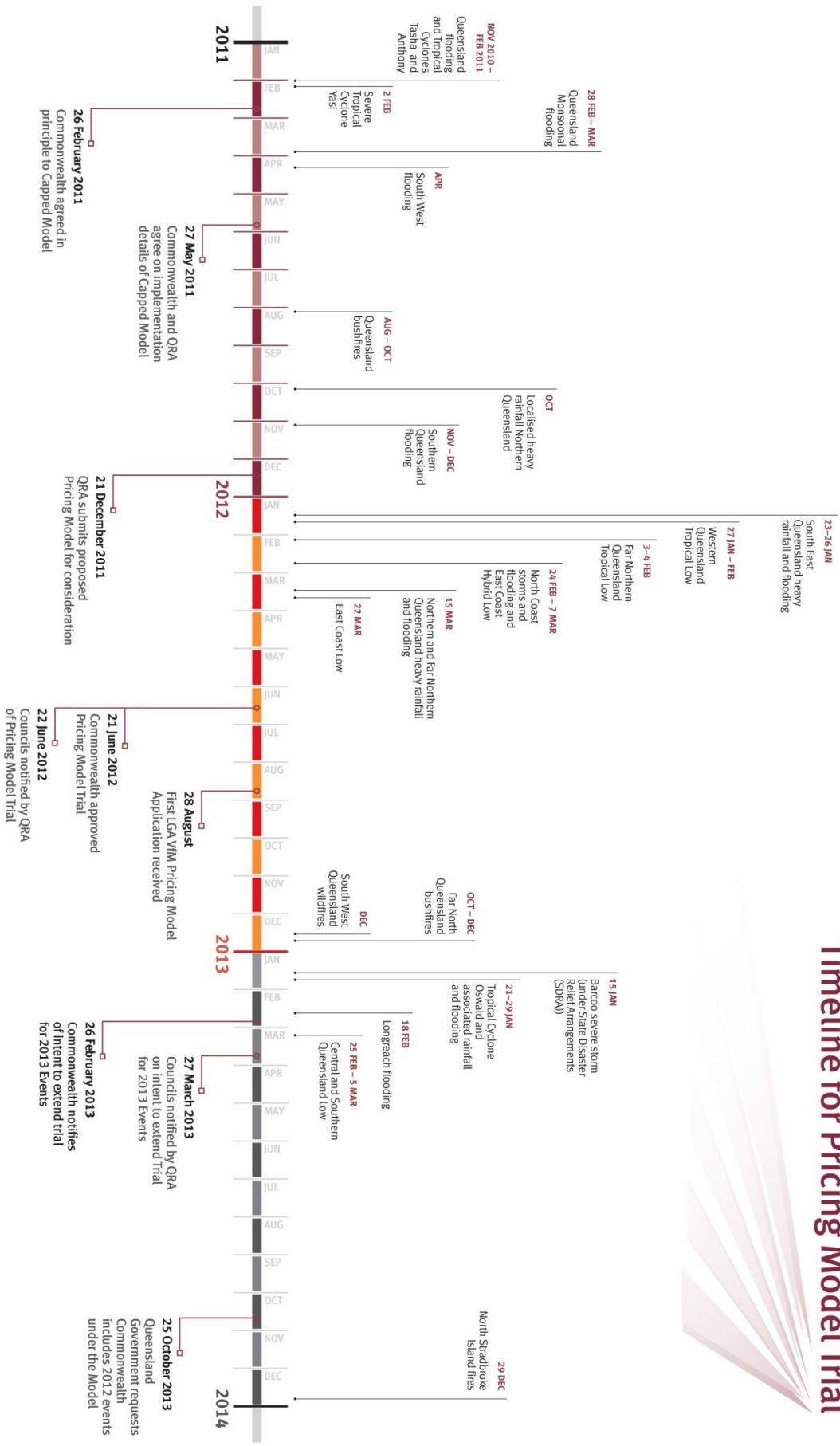
In addition, council assets damaged in 2012 events that had been previously damaged in 2011 events were deemed eligible. The trial was subsequently extended to cover the natural disaster events of 2013, with the formal notification from the Commonwealth received on 5 August 2013. For all aspects of the trial, expenditure on local council workforces used for counter disaster operations or emergent works or for general maintenance activities remained ineligible.

The key principles driving the VfM Pricing Model are outlined in the full Guidelines document available on the QRA website at www.qldreconstruction.org.au/ndrra (*Day labour advice for councils*).

Timeline for establishment of Pricing Model Trial

The timeline on page 8 shows the timing of implementation and establishment of the VfM pricing model trial.

Timeline for Pricing Model Trial



3. Review of outcomes achieved

Capped Model

Under the initial day labour allocation of \$50 million for the capped model, 44 of 73 councils in Queensland covered by this model have been paid costs associated with NDRRA works.

Of the 29 councils that did not apply for day labour costs under the capped model, 11 sustained no Restoration of Essential Public Asset (REPA) damage or did not meet the trigger point to claim, and 18 councils did not submit claims for day labour as they utilised contractual arrangements for the delivery of works. It is noted that six (6) councils that did not originally submit claims under the capped model have subsequently applied under the VfM Pricing Model.

Of the 44 councils that have applied for day labour costs under the capped model, 25 have subsequently applied for day labour under the VfM Pricing Model. As noted previously, six (6) councils that were eligible under the capped model but did not apply for costs have also applied for day labour under the VfM pricing model. Payments to councils under the capped model cease once a submission is approved under the VfM Pricing Model.

To date, councils have applied for \$37.8 million under the capped model. Additional claims will be processed as part of the close-out and acquittal process.

VfM Pricing Model

Council engagement for 2011 and 2012 (re-damage) events

Since the VfM Pricing Model was approved on 21 June 2012, the Authority has engaged with the 73 councils in Queensland to assess their suitability for reimbursement of internal workforce costs.

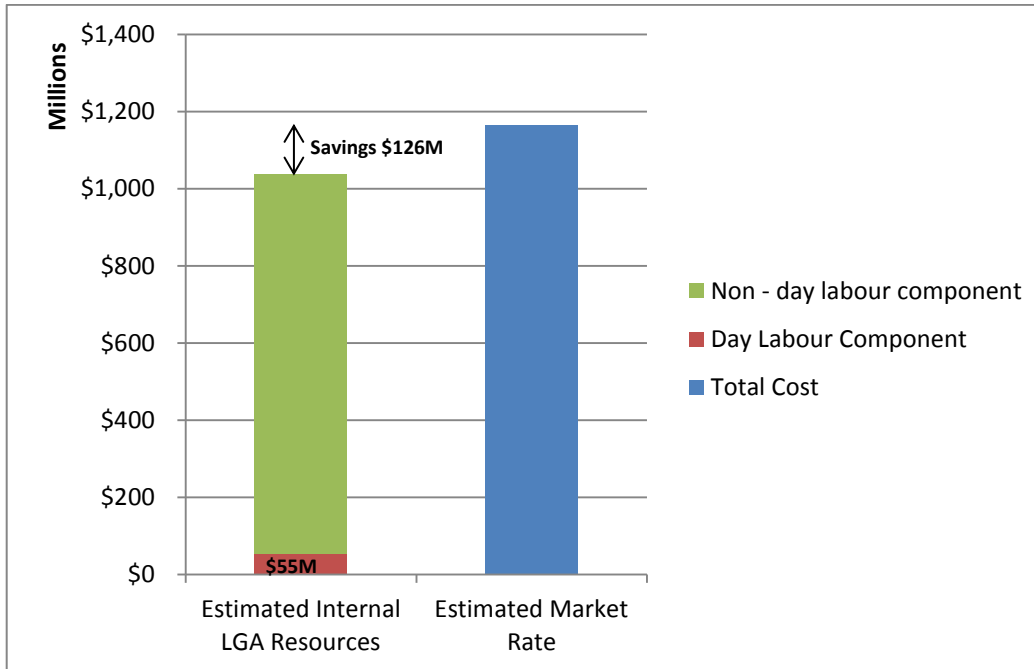
Of these 73 councils:

- Twenty-five (25) councils have been assessed as eligible under the VfM Pricing Model.
- Five (5) councils have applied but have not provided sufficient information for final assessment (QRA continues to work with these councils to progress their applications).
- Three (3) councils are yet to confirm if they will submit an application under the model.
- Thirty-nine (39) councils have been assessed as not likely to utilise the model for their construction program for a variety of reasons:
 - Eleven (11) did not sustain REPA damage from any of the 2011 events
 - Twenty-three (23) decided not to use the model for the reasons outlined on page 10, 'Submissions not received'
 - Five (5) councils have indicated that their internal labour costs are covered under the Capped Model.
- The remaining one (1) council has indicated it will make an application.

Applications assessed

Assessment of the applications received from 30 councils at the time of this report indicates an estimated program saving of \$126 million will be achieved under the pricing model, resulting from the leveraging of \$55 million in day labour resources, within an overall expenditure of \$1.04B.

Graph: Actual submitted – 30 LGAs



Assessments of actual savings generated through the VfM Pricing Model trial based on completed submissions are being undertaken by the QRA as part of the acquittal process. Approximately 30 per cent of approved submissions under the model have been completed and acquittal documentation received by the Authority. The remaining 70 per cent of approved submissions under the VfM Pricing Model trial will be completed no later than 30 June 2014. The QRA expects to complete the full assessment of the trial in the last quarter of 2014.

As part of the review into the effectiveness of the trial, the QRA has undertaken case studies of several councils approved under the model.

Submissions not meeting criteria

Seven (7) councils have submitted applications for submissions that have not met the criteria defined under the model.

These submissions are as follows:

- ESC.7.13, MacRC.29.13, SRRC.13.12: submissions where damage was not from an eligible event.
- GyRC.1.11, GyRC.3.11, GyRC.5.11, GyRC.6.11, GyRC.10.11, GyRC.17.12, GyRC.18.12, GyRC.21.12, GyRC.26.12, LVRC.76.12, RRC.8.12, RRC.17.12, RRC.31.12, SRRC.10.11, WRC.3.11 and WRC.4.11: submissions where the reconstruction works were completed prior to the application being submitted by Council.
- RRC.19.12: Category D submission excluded from the model.

Submissions not received

The Queensland Reconstruction Authority has engaged with the 39 councils that have not applied under the VfM Pricing Model to identify the reasons for not utilising the model. These reasons include:

- Eleven (11) councils did not sustain REPA damage from any of the 2011 events.
- Twenty-three (23) councils decided not to use the model for reasons outlined below
 - Council had committed to a contractor, as the Pricing Model had not been approved by the Commonwealth in time for them to utilise it.

“Council was too far through their program when the day labour model came in to utilise it.”
 - Councils lacked confidence that the Commonwealth would not change or modify the model during delivery.

“Council would have had to carry the risk.”
 - Several councils expressed a desire to utilise the model but were unsure of their ability to manage the process and did not submit an application.

“The issue of resourcing, particularly the shortage of management and supervisory resources, to meet the compliance requirements”
 - Councils had existing capital works programs in place to which their internal resources were committed.
- Five (5) councils have indicated that their internal labour costs are covered under the Capped Model.

It is noted that throughout the VfM Pricing Model trial, councils have continually expressed a desire to the QRA to use day labour for 2012 Events. The majority of these councils suffered significantly greater and wider damage across their areas in 2012 compared to 2011. They subsequently have been impacted by drought conditions occurring post the 2012 event.

The use of internal resources to deliver the reconstruction works would have enabled council to balance the larger reconstruction program and the drought conditions to achieve further savings to the 2012 program. Potentially 27 councils could have utilised day labour to deliver a portion of the reconstruction works resulting from 2012 event damage.

Council engagement for 2013 events

The Commonwealth formally agreed to extend the VfM Pricing Model trial for 2013 events on 5 August 2013. The QRA is engaging with 62 councils impacted (originally 58 councils prior to the Local Government Authority de-amalgamation process) to assess their suitability for reimbursement of day labour costs relating to the Restoration of Essential Public Assets. To date engagement with these LGAs has resulted in the following:

- Eleven (11) LGAs have submitted applications to utilise the model, with one (1) council approved and the other ten (10) councils under assessment by the Authority;
- Thirty (30) LGAs have informally indicated they will apply under the Pricing Model for a proportion of works;
- Fourteen (14) LGAs have not yet confirmed an intention to use/not use the model; and
- Seven (7) LGAs have indicated that they will not apply due to the delivery methodology selected by council.

As the remaining 2011 and 2012 event damage must be completed no later than 30 June 2014, councils are focussing on delivery of these works. It is expected that these councils will focus on how they intend to deliver the 2013 event works after July 2014. The QRA is engaging with the relevant LGAs to determine the estimated savings and expenditures that could occur under this extension of the trial.

The LGAs that do not intend to apply under the extension of the trial have continued with their contractor arrangements from previous events or have commitments to existing capital works programs.

Contribution by councils

To date approximately \$20.8 million in labour resources has been utilised by the LGAs under the VfM Pricing Model for 2011 and 2012 events (re-damage). Reimbursements to the LGAs are at approximately \$18.9 million, as the QRA withholds 10% of the day labour claimed as the council contribution (currently \$1.9 million has been withheld).

The council contribution for the total program is being monitored by the QRA against the cap of 10 per cent of council's rate base (as per council's audited financial statements for the previous year). To date, no council has reached this threshold.

It is estimated that council contributions under the VfM Pricing Model for 2011 and 2012 (re-damage) will reach \$3-4 million.

4. Case studies

Toowoomba Regional Council

The scale of the disasters that hit Toowoomba as a result of the Queensland Floods in January 2011 and the flooding brought on by Ex-Tropical Cyclone Oswald in January 2013, has required Toowoomba Regional Council's restoration program to use many different crews – contractors as well as Council's internal labour force – to repair the mountain of damage in the region.

Council's decision to use its internal labour force to carry out restoration works has seen savings on some of the projects of up to 45 per cent without any loss in the quality of the reconstruction.

"Our crews work for standard local government awards, not contractor rates. Our crews who know the area and do this sort of work every day were able to get in and deliver the work cheaper and faster than if we'd used external contractors," said Mayor Paul Antonio.

"Being able to use our own workforce for these projects has provided a good outcome for the community," he said.

Cassowary Coast Regional Council

Council decided to use its own internal labour force and plant in conjunction with local contractors under its Standing Offer Arrangement to carry out some of its reconstruction works.

Some of the reasons for the positive outcome are:

- Good local knowledge of the area helped program the works and problem areas were known in advance.
- Traffic control could be instigated at short notice and for varying periods with minimal disruption.
- Road furniture and ancillary restoration works could be carried out in conjunction with the normal works program.

Cassowary Coast Regional Council Mayor, Cr Bill Shannon said in relation to the VfM Pricing Model:

"When working in the wettest area in Australia, greater flexibility through utilising day labour translates to efficiency. Works can continue through the wet season with wet weather and delays not costing the project a cent as the workforce simply moves on to Council's normal operational activities. A contractor in the same circumstances would have far greater disestablishment and reestablishment costs and may need to maintain overheads such as camp facilities for a longer period."

This delivery methodology has also ensured heavy utilisation of local contractors, which has the added benefit of maximising the money spent locally which has assisted in the recovery of a devastated community," Cr Shannon said.

Charters Towers Regional Council

Charters Towers Mayor Frank Beveridge said the flood damage repair work has proved significant for Council's road infrastructure workforce.

"It proves that our work is of a high standard and that is really beneficial to our staff. We have proved we can do this work efficiently and we can now apply this methodology to other work. This is a very good outcome because we had to prove to QRA that our work was value for money when compared against local contractors," he said

"Council is currently employing 30 staff on NDRRA contract work. Additionally as our workforce is doing this work, they are also doing road maintenance work to compliment the flood damage and that's also a good outcome.

"A benefit of Council undertaking these works is that we have a larger pool of resources in the area than other contractors so when there is an issue with a machine breaking down we are able to replace it quickly and continue on with the works.

"Council also have a good rapport with the local landowners, which is beneficial when setting up camp and accessing resources for the works," Councillor Beveridge said.

Central Highlands Regional Council

Bluff Jellinbah Road in the Central Highlands region runs north west from the township of Bluff (pop. 370), approximately 90km east of Emerald on the Capricorn Highway. The gravel road provides an alternate access onto the Burnell haul road servicing both the Jellinbah and Yarrabee Mines, which are both major employers in the region, making the road an access route for significant heavy vehicle traffic.

The remote nature of Bluff Jellinbah Road ensures that any repairs from damage inflicted by natural disaster require contractors to travel exceptional distances to the work sites, increasing costs for Council. A contributing factor to this is both the low level and high cost of accommodation in Bluff and Blackwater.

"Being able to use our available resources has certainly provided a great outcome for this project," said Mayor Peter Maguire.

"The remote location would have been a challenge for contractors, and our own crews were able to deliver the work quicker and cheaper than if we'd got in someone external to do it for us."

"It just makes sense for us to do it this way, it's a much more flexible option," he said.

5. Outcomes identified during the Trial

Initial modelling versus actual Council development of submissions

Because of the delay in Commonwealth approval for the VfM Pricing Model some councils had excluded day labour costs from their submissions. This resulted in submissions being developed to include contractor only costs. Other councils had previously developed their submissions to include council and contractor costs, or once the pricing model was approved, developed council cost only submissions. The time taken in initially approving the trial has contributed to the complexity of assessment and council uncertainty in using the model.

The QRA receives the application data from councils in three generic forms dependant on councils initial application and the delivery model being proposed. As each application is different, these required moderation to generate comparable data sets:

- Type A is where the assessment is based on council estimates of works and then market estimates are derived
- Type B is where an assessment is based on a market estimate supplied and a council estimate is derived
- Type C (the most common) is where there is a mixture of Types A & B.

Councils modifying delivery mechanisms during delivery

During the course of the trial councils have continued to modify their delivery mechanisms. Several councils initially indicated that they would not use the model, and then subsequently applied.

“Council did not initially use DL for 2011/12 because it was not reimbursable. Since the reconsideration of this policy, there have been some works applied for and carried out for 2011/12 using day labour.”

A limited number of councils initially indicated a desire for a higher utilisation of day labour and then changed to include a contractor delivery model after consideration of the advantages and disadvantages associated with the trial.

Generation of savings

The majority of savings generated by councils has been through reduced material and plant costs that have been leveraged by the day labour approval. Councils have a lower cost base for their equipment and often a ready supply of local material. Councils also have a reduced mobilisation cost (particularly in remote areas) resulting in reported savings.

Savings also appear to have been achieved from lack of profit margin, reduced tendering costs, local knowledge in design and materials being used (both in council and consultant designs), and construction duration. The final construction costs will be confirmed on acquittal, to derive the final estimated savings under the VfM Pricing Model.

Anecdotal evidence from councils on the benefits of the model:

“A benefit of Council undertaking these works is that we have a larger pool of resources in the area than other contractors so when there is an issue with a machine breaking down we are able to replace it quickly and continue on with the works.”

“Council also have a good rapport with the local landowners, which is beneficial when setting up camp and accessing resources for the works.”

“Delivery of a number of projects was considered by their nature to be more suitable to be constructed by Council’s day labour workforce due to the complexity and lack of formal design.”

Inconsistencies in application of the Model

LGAs have continued to contact QRA expressing a desire to use Day Labour for 2012 events. The exclusion of 2012 works from the trial has potentially contributed to higher delivery costs for the 2012 Event NDRRA works. Councils have commented on this inconsistency:

“The gaining of timely approvals is an issue as it is an impediment to early commencement of works. Why do we need to gain particular approval to carry out works by DL?”

6. Conclusion

Based on this interim assessment of the trial's objectives, the use of day labour under the VfM Pricing Model will result in an estimated \$126 million saving across the 2011 and 2012 (re-damage) reconstruction program. This is based on 30 Queensland councils using the model to deliver works for a lower value compared to the open market by leveraging lower labour, material and equipment costs.

Further savings would have been achieved if 2012 disaster events had been included in the VfM Pricing Model trial. Potentially, 27 councils could have utilised day labour to deliver a portion of their 2012 reconstruction works.

It is anticipated that further savings will be realised for 2013 disaster events. Eleven councils have already submitted applications to utilise the model for 2013, with another thirty informally indicating they will apply. The QRA is engaging with these councils to determine the estimated savings that could occur under this extension of the trial.

The VfM Pricing Model has also provided additional benefits to the program including the ability of councils to mobilise and complete reconstruction works more quickly, and use local knowledge in design and construction techniques.

Giving Queensland councils the ongoing ability to use day labour as a delivery methodology for NDRRA works will result in additional savings, reduced uncertainty and increased flexibility in the delivery of reconstruction projects for future events.