The Procurement Strategy

The procurement strategy, which sets out how the project will be delivered, is commenced as part of the business case and finalised prior to commencement of tendering. It results in a decision as to the appropriate delivery model for the project.

Victoria developed a standard methodology for procurement analysis, which has subsequently been adopted as part of Australia's National PPP Guidance. The methodology includes the five steps in the following diagram.

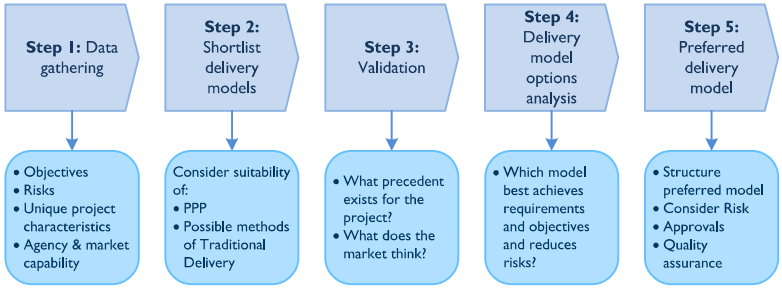

Figure 1: Procurement Decision Making. (Click to enlarge.)
Sources: National PPP Guidelines, Volume 1: Procurement Options Analysis; Foster Infrastructure.

Step 1: Data Gathering

The first step is to gather data on the project, including the objectives, risks and unique project characteristics, together with information on the capability of both the relevant government agency and the market.

Step 2: Shortlist Delivery Models

The second step is a "short-listing" of the possible delivery models that might be appropriate for the project, bearing in mind the data gathered in step one.

The following table illustrates the analysis that might be undertaken to consider whether a public private partnership option should be short-listed in step two for delivery of a hypothetical waste treatment project. The analysis is a qualitative examination of whether the project has the characteristics that make PPP delivery a feasible option.

Required Characteristic	Assessment of Project
Is it large-scale and long-term?	✓ ($100m plus, long-life asset)
Are there measurable outputs?	✓ (Treatment of waste to comply with environmental regulations etc)
Are there opportunities for risk transfer?	✓ (Design, construction, operation, incoming waste(?), energy cost(?))
Is there scope for innovation?	✓ (Significant scope in design, construction and operation)
Is there market capability and appetite?	✓ (Market testing; Private sector delivery and operation of waste treatment plants has occurred elsewhere)
Are there non-core services?	✓ (Operation of the plant)

Table 1: Is PPP Delivery a Feasible Option?
Source: Foster Infrastructure.

Step 3: Validation

The third step is a validation process, in which there is an investigation of the precedents that exist for delivery of similar projects.

Step 4: Delivery Model Options Analysis

Step four then involves a detailed comparison of the short-listed models to evaluate which of them best achieves government's requirements and objectives and mitigates risks. This enables identification of the preferred delivery model.

The following table from the Business Case for the Melbourne Metro Rail Project[1] highlights the analysis that is undertaken in step four to identify a preferred delivery option from a short-list. The analysis is a qualitative examination of the extent to which each short-listed delivery method will support the identified evaluation criteria. The evaluation criteria were weighted to reflect their relative importance.

1. To access a copy of the Business Case for the Melbourne Metro Rail Project, click here.

Evaluation Criteria	Priority	Design & Construct	Design, Construct, Maintain	PPP
Risk transfer	High	✓	✓✓	✓✓✓
Time	High	✓✓	✓✓	✓✓✓
Price and budget certainty	High	✓✓	✓✓	✓✓✓
Innovation and incentive	Medium	✓	✓	✓✓
Flexibility and control	Medium	✓✓	✓✓	✓
Market interest and appetite	Medium	✓✓✓	✓✓✓	✓✓✓
Overall Ranking		**3**	**2**	**1**

Table 2: Comparing delivery options for delivery of the tunnels and stations for the Melbourne Metro Rail Project
Source: Melbourne Metro Rail Authority, Melbourne Metro Business Case.

Step 5: Preferred Delivery Model

In step five, the preferred delivery model is structured to suit the specific requirements of the project. If the analysis has identified specific weaknesses of the preferred model, mitigants are considered. In the hypothetical waste treatment project examined above, PPP delivery has the highest score and

hence is the preferred model, but it did not score as well as the traditional delivery option in relation to flexibility. Consideration should be given to how any necessary degree of flexibility can be incorporated into the PPP model for this project.