CORPORATE & BUSINESS SYSTEMS

ATTACHMENT D

2 BIRIPI WAY, TAREE OFFICE RELOCATION INVESTIGATIONS UPDATE

ORDINARY MEETING

6 FEBRUARY 2019

MIDCOAST council

[Redacted version (commercial in confidence information removed) - this version has been prepared for inclusion in Council Report for Ordinary Meeting held on 6 February 2019]

Capital Expenditure Review

Mid-Coast Council Proposed Office Relocation 2 Biripi Way, Taree

November 2018

PURPOSE

This review has been undertaken by Mid-Coast Council (**Council**) in accordance with the Director General's Guidelines (December 2010) issued pursuant to section 23A of the *Local Government Act 1993.*

The budgeted total building cost for the proposed Project is $18.093 Million (plus GST and plus IT/AV costs) and accordingly, in addition to addressing the minimum specified requirements, this review also addresses the additional requirements contained in the Guidelines.

In addition to the fit out cost referenced above, in December 2017 Council acquired the site the subject of the proposed Project for $7 million (plus GST).

A total of $27 million (plus GST) has been allowed for site acquisition and fit-out.

Attachments to this review are as follows:

Attachment A:	Savills Business Case (Jan 2018) and updated Syneca Cost Benefit Analysis Report (23 Oct 2018)
Attachment B:	Gateway Process Diagram
Attachment C:	WMK Test Fit Design (July 2018)
Attachment D:	Slattery Cost Plan (July 2018)
Attachment E:	Draft Financing Strategy (Oct 2018)
Attachment F:	Engagement Strategy
Attachment G:	Knight Frank Property Reports (June 2018 and Sept 2018)
Attachment H:	MCC Probity and Governance Plan (Nov 2018)
Attachment I:	MCC Risk Management Plan (Nov 2018)
Attachment J:	MCC Business Management Project Plan (Nov 2018)
Attachment K:	MCC Procurement Plan (Nov 2018)
Attachment L:	MCC Workplace Culture Briefing Note (Feb 2018)

EXECUTIVE SUMMARY

In 12 May 2016, the former Greater Taree City Council, Great Lakes Council and Gloucester Shire Council were amalgamated to create Mid-Coast Council.

The merger resulted in Council operating from a number of administration offices within the Local Government Area. A review of these operations confirmed that operating and maintaining a single head office location is significantly more cost-effective than continuing to operate across multiple sites.

With that in mind, on 2 November 2017, Council resolved to acquire the former Masters building and site which is located at 2 Biripi Way Taree being folio identifier 1/1185504 (**Premises**) for $7 million plus GST. The Premises had been identified as having the potential to become the administrative headquarters of Council and would allow for the centralisation of administrative staff.

The benefits of the proposed office relocation include:

- Improved collaboration for more efficient service delivery
- Streamlined and consistent processes
- Reduced operating costs
- Reduced maintenance costs
- Opportunity to reduce council's carbon footprint
- Reduced travel time and improved staff productivity
- A modern facility suitable for future growth
- Incorporates one of five customer service centres, with over-the-counter customer service retained in all existing locations including Forster (albeit moved to the Civic Precinct at Lake Street once developed), Taree, Tea Gardens, Gloucester and Stroud

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes. The budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs).

GATEWAY PROCESS

Council has implemented a gateway process system whereby the project will be undertaken in a staged gateway manner, which will assist with ensuring that optimal outcomes are achieved for Council and the community on time and on budget. This process will also provide the necessary control to ensure this project can be governed through a series of decision points.

The proposed Gateway Process comprises the following stages:

1. **Initiation Stage** focussing on the project concept: This stage would involve Council agreeing that the project is feasible (following consideration of the high level business case) and potentially affordable, subject to further investigation. Council would also be required to commit to resources to investigate concepts to inform the design and confirm feasibility. In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed. This stage contains a number of decision points.

2. **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program.   At this stage, resources would be committed to design and refine costs and schedule estimates.

3. **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre-construction activities and project outcomes. Confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders assessed and successful tenderer appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

4. **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

5. **Finalisation:** Agree on costs, benefits and lessons learned

This process will be refined as the project parameters, scope and outcomes become more certain.

See **Attachment B** for Gateway Process diagram.

PROJECT MILESTONES

Council has made significant progress in connection with project investigations to date. The following identifies the significant milestones that have been achieved in connection with the Initiation Phase of the Project so far:

Site acquisition
On 2 November 2017, Council resolved to acquire the Premises for a price of $7 million plus GST for the proposed purposes of a central administration headquarters for Council.

Gateway Process adopted
On 20 December 2017, Council resolved to adopt a Gateway Process for the development of the Project whereby a series of decision points exists. The first phase is the 'Initiation Phase' which allows for Council to receive and consider information and determine whether it wishes to proceed with the project.

At that meeting, Council also acknowledged the contents of the draft Business Case prepared by Savills Project Management Pty Ltd. The Business Case confirmed Savills preliminary findings that after weighing up the costs and benefits of the relocation of the administration operations to a single site (at 2 Biripi Way, Taree) (**Single Site Option**) against the refurbishment of the existing four administration sites (**Campus Model Option)**, the Single Site Option was the preferred option.

Project Manager appointed
On 24 January 2018, Council noted the appointment of Montlaur Project Services Pty Ltd (**Project Manager**) to provide project management services for the Initiation Stage of the Project, with the appointment subject to approval of the services, costs and program at a subsequent Council meeting.

Business Case endorsed & Initiation Stage services, costs and program accepted
On 28 February 2018, Council resolved to accept the services, costs and program proposed by the Project Manager and to proceed with the investigations as part of the Initiation Stage of the Project.

At that meeting, Council also noted the contents of the final Business Case prepared by Savills, which was consistent with the preliminary findings that the Single Site Option was the preferred option over the Campus Model Option.

Financing strategy preparation approved
On 22 August 2018, Council considered the outcomes of the preliminary investigations for the Project (being the Test Fit Design undertaken by WMK Architecture (see **Attachment C**) and the associated cost planning undertaken by Slattery (see **Attachment D**)) and resolved that at that stage in the investigations, the Project was feasible. The Test Fit Design and Cost Plan identified an estimated cost of $18.093 Million to develop the Biripi Way site as a central administrative office. By way of comparison, the cost plan identified an indicative cost of $12.9 Million to refurbish the Council's existing administrative buildings to accommodate the Campus Model Option.

Also at that meeting, Council resolved to approve the preparation of a financing strategy to be presented to Council at a subsequent meeting for consideration and approval before proceeding to the next stage of the Project.

Approval of financing strategy and community engagement strategy

On 31 October 2018, Council approved the draft financing strategy (noting that a peer review of the strategy was to be undertaken) (**Draft Financing Strategy** - see **Attachment E)** and the draft Community Engagement Strategy (see **Attachment F**), and the implementation of that strategy over a six-week consultation period.

The outcomes from the peer review of the Financing Strategy and community engagement will be reported back to Council at a subsequent meeting (early 2019) for consideration prior to proceeding to the next phase in the Project (Design Phase).

BUSINESS CASE

After acquiring the Premises, Council engaged (following a procurement process) Savills Project Management Pty Ltd to identify the likely costs and benefits of fitting out and relocating staff to a single site rather than refurbishing the existing four buildings an operating on a 'campus' (multi-site) model.

To inform the business case, First State Property Valuers was appointed to prepare five valuations (being the Premises, the Water Services offices at both Taree and Forster and the existing main Council offices at both Taree and Forster).

In addition, Rider Levett Bucknall was appointed to provide a quantity surveyor report to identify the likely costs of fitting out and proposed refurbishment of the sites with two primary options, being the Single Site Option at the Premises and Campus Model Option utilising the four existing sites.

The finding by Savills in the Business Case was that after weighing up the costs and benefits of the relocation of the administration operations to a Single Site Option at the Premises against the refurbishment of the existing four administration sites and continued operation of a Campus Model Option, the Single Site Option is the preferred option.

See **Attachment A** for the Business Case.

Subsequent to the preparation of the Business Case, further property valuations were undertaken by Knight Frank Property Consultants as part of the Financing Strategy preparation (see **Attachment G**). The Knight Frank Report contains more conservative property valuations for the current Council administration buildings than referenced in the Business Case which was prepared by Savills.

Due to these lower property valuation figures, Savills Project Management was requested on 22nd October to update the relevant tables in the Cost Benefit Analysis (**CBA**) component of the Business Case so that this information could be provided to Council. Savills engaged Syneca Consulting (who prepared the original CBA) to update the CBA and the amended report dated 23 October 2018 is also attached at **Attachment A**. The amended Syneca CBA updates Tables E.1, E.2, 3.1,4.2, and 4.3 in their Report with the revised property valuation figures. The more conservative

property valuations do have an impact on the Cost Benefit Analysis however as the revised tables and conclusion in the Syneca Report show the CBA still strongly favours the Single Site Option.

See Attachment G for the Knight Frank Property Reports.

CAPITAL EXPENDITURE REVIEW MINIMUM REQUIREMENTS

Outline proposed Project

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes.

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Justification of the need and Council prioritisation

As Council continues to build 'one council' resulting from the amalgamation, Council is continually looking at ways to improve efficiencies that deliver greater value for money for ratepayers.

The potential consolidation of Council's administrative functions will mean tangible savings and operational efficiencies (as identified in the Business Case in **Attachment A**).

Integration of teams has been hampered and challenging with staff dispersed across various administration offices. Team building and communication can be challenging in the current environment. With Council's main administrative offices being consolidated under the Single Site Option, there will be greater opportunity for staff to work collaboratively, build a constructive culture and to streamline processes and work holistically to deliver the best possible outcome for the community.

Council has prepared a briefing note on workplace culture (see **Attachment L**). The briefing paper quantifies the defensive culture currently at Council, its potential financial impact on the organisation (the 'cost' of culture) and documents the steps being undertaken to create a more constructive environment and culture.

Having regard to the potential benefits and efficiencies to be gained from bringing administration staff under the one roof, Council has determined that the investigations into the possible office relocation implement the Single Site Option is a priority in conjunction with the $100 million roads and bridges program that it is currently undertaking.

It is proposed that a centralised head office under the Single Site Option offers the following internal and customer value creation benefits:

- Allows both formal and informal interaction within and importantly between teams
- Team members always at hand for coordination, problem-solving and learning
- Questions answered quickly
- Problems fixed on the spot
- Less friction between interactions
- Trust is gained and awarded much more quickly
- More streamlined and faster decision making with key stakeholders involvement

Linkage to Community Strategic Plan and DP/OP

The benefits and efficiencies associated with the Project have strong correlation to the vision and values identified in Council's Community Strategic Plan and objectives identified in Council's current Delivery Program & Operation Plan (2018/19).

Community Strategic Plan (2018 – 2030)

In Council's Community Strategic Plan, the value of 'Strong leadership & shared vision' is identified which includes the following:

> *"We maintain strong organisational health that contributes to council's success and community-focused culture: Develop and grow a skilled, motivated and accountable workforce. Support a culture that values achievement, adaptability and safety"*

Delivery Plan/Operation Plan (2018-19)

Council's current 2018/19 Operational Plan incorporates a plan for the delivery of civic leadership for its community through the following:

Objective 13: We work in partnership with our community and government to ensure Council is a trusted and flexible organisation that delivers on their needs

Strategy 13.2: Provide the community with an efficient, convenient and professional experience when using council services

13.2.1 Ensure the community has contact points to Council services in the main centres of the LGA, utilising Council owned sites in an efficient and effective way and ensuring teams are coming together as one Council

> *1 year action: Continue to investigate options for accommodation in Forster and Taree through the adopted gateway process being undertaken for the former Masters site at Biripi Way, Taree or any alternative arising from the investigations*

13.2.2 Provide a welcoming and easy to deal with Council where customers have a positive experience of Council service delivery

Strategy 13.5: Develop and deliver services and programs that provide value for money

13.5.1 Develop strong, diverse leadership and a culture that values performance and adaptability

13.5.2 Encourage innovation and improvement to council processes and activities ensuring they add value for stakeholders

Objective 14: We maintain strong organisational health that contributes to Council's success and community-focussed culture

Strategy 14.1: Develop and grow a skilled, motivated and accountable workforce

14.1.2 Position MCC as an 'Employer of Choice'

Strategy 14.2: Support a culture that values achievement, adaptability and safety.

14.2.1 Embrace a constructive workplace culture that enhances individual and collective performance, with an objective of delivering high quality outcomes for the community

14.2.2 Embrace a culture of safety and wellbeing

In Council's current Delivery Program & Operation Plan (2018/19) under the heading "Other Potential Borrowings for 2018-2019" Council has made the following disclosure:

> *"Relocation of Office Accommodation to former Masters site Council has engaged external consultants to undertake a detailed estimate of the cost to consolidate / relocate its existing office accommodation to a single site at Biripi Way Taree (the former Masters site). Once that study has been completed Council will consider the financial impact of the proposal and the funding options. This will involve loan funding, divestment of existing assets, funding sources etc. Further reports to Council will be prepared and considered prior to a decision being made to proceed or not proceed with the proposed relocation. Council is unable to put a figure on potential loan requirements for this purpose at this point in time but is disclosing that this source of funding will be required should Council resolve to proceed with the proposal."*

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Estimated cost of Project and proposed funding sources:

Council acquired the Premises in December 2017 for $7 million plus GST.

Council engaged Slattery Consulting to prepare a Cost Plan (based on an assumed test fit design) to identify likely costs to undertake the project (based on the assumption that 350 staff will relocate).

The Cost Plan identified that the budgeted total building cost for the proposed Project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this does not include the $7 million site acquisition cost. See **Attachment D** for the Cost Plan.

The Cost Plan does not include allowance for AV/IT equipment. Council estimates that AV/IT equipment for the Single Site Option would be $2,656,336. By way of comparison, it has been estimated that AV/IT equipment costs for the Campus Model Option would be $3,911,336.

The Cost Plan does not make provision for AV/IT equipment costs on the basis that AV/IT costs will be incurred irrespective of whether the single site model or the campus model is ultimately selected and Council has made provision as part of its regular budgeting processes. This will occur as part of the scheduled hardware upgrade cycle. This information is included in the Final Cost Plan provided.

Financing Strategy

The draft Financing Strategy has been prepared to identify funding sources for the fit out component of the Project (i.e. excluding the site acquisition cost) (see **Attachment E**). This strategy involves a rationalisation of cash reserves, which in the main are the result of efficiencies in reserve fund holdings as a result of the Council merger; the sale of property assets, and loan

funds with loans to be repaid from rental income received from leasing out retained properties surplus to Council's needs as a result of the office centralisation to Biripi Way.

Data and other market analysis on council assets provided by Knight Frank Newcastle informed the preparation of the Financing Strategy.

It is important to note that the Financing Strategy proposed is designed to minimise the impact on the current budget utilising Council's Balance Sheet and borrowings funded by lease rental to generate the necessary funds. There is no impact on the road improvement program Council has committed to and Special Rate Variation funds are quarantined to ensure they are expended on road projects.

In summary, it is proposed in the Financing Strategy to fund the development of the Biripi Way site (excluding the $7 million site acquisition) through the following means (the detailed Financing Strategy at **Attachment E** provides detail on the basis of these figures):

Cash Reserves	$7.2 Million
Sale of Property Assets	$4.8 Million
Loans	$8 Million
Total	$20 Million

The Premises acquisition for $7 million (plus GST) was funded through loan borrowings (CBA - 20 year term with a variable rate of interest). Principle and interest repayments (approx. $500,000 per annum) on this loan are being met from Council's Commercial Development Reserve which holds the rental income received from the Woolworths Tuncurry lease.

The Financing Strategy is based on a total project cost of $20 Million. While the Project estimate in the Cost Plan is $18 Million (and this estimate includes significant contingency provision) the Financing Strategy is based on $20 Million to provide an additional buffer. It is financially prudent to base the financing strategy on conservative figures. If the costs come in at the estimated $18 Million level loan borrowings would be reduced.

RSM Australia has been engaged to undertake a peer review of the draft Financing Strategy. The results will be reported to Council upon completion of that review. In addition, during November/December 2018 the draft Financing Strategy has been placed on public exhibition to give the community the opportunity to provide feedback on the funding arrangements proposed in that strategy (i.e. to fund the fit out component of the Project of $20 million).

Knight Frank Newcastle has been engaged to prepare an asset disposal report to enable Council to assess the benefit of disposing of one or more Council owned assets to contribute towards the funding of the project. Information in this report informed the preparation of the Financing Strategy. See **Attachment G** for the Knight Frank Property Reports.

Note: See page 8 of this report for the disclosure made in Council's current DP/OP relating to borrowings.

Anticipated start and completion dates:

On the basis that the Project is still in the Initiation Phase, a detailed Project program is yet to be prepared. Should Council determine to proceed with the Project beyond that phase, then Council's internal Project Team will be in a position to work with its external advisers to prepare a detailed Project program. The dates below are an indication of likely start and completion dates - but are subject to change as the Project scope and requirements become more certain.

Anticipated Project start date: 30 March 2019*
Anticipated Project completion date: mid 2020*

Subject to Council approval and confirmation of project program

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Assessment of Council Capacity

To ensure the on-going success of the Project, Council has formed a project team (comprising both internal and external members) with comprehensive expertise and experience in transactions similar to the proposed Project.

Internal project team members include:

Name	Title	Area/BU	Project Role
Adrian Panuccio	General Manager	Whole of Council oversight	Project Leader
Steve Embry	Director	Corporate & Business Systems	Corporate Governance
Paul DeSzell	Director	Community Spaces and Services	Asset functionality and usage
Phil Brennan	Manager	Finance	Financial control
Lynn Duffy	Manager	Corporate Strategy & Development	Workplace development & strategy
Rob Griffiths	Manager	Governance	Governance and risk
Allison Anthony	Acting Manager	Property and Commercial Services	Asset planning and management
Marcelle Boyling	Co-ordinator	Communications and Engagement	Community consultation and internal communications
Russell Wallace	Co-ordinator	Procurement	Procurement
Paula Sciacca	Co-ordinator	Risk & Insurance	Risk & Insurance

To date, externally appointed consultants include the following:
- Savills Project Management Pty Ltd (preparation of the Business Case)
- Montlaur Project Services Pty Ltd (project manager for the Initiation Phase)
- First State Property Valuers (property valuation)
- Rider Levett Bucknall (quantity surveying advice)
- WMK Architecture (preparation of Test Fit Design)
- Slattery Consulting (preparation of Cost Plan - based on the Test Fit Design)
- Knight Frank Newcastle (preparation of Property Reports)

- Intelle Building Services (services investigations - mechanical, electrical, fire and hydraulics)
- Kudos Building Certification (Building Code of Australia compliance checks, report and reviews)
- RSM Australia (peer review of Financing Strategy)

The primary responsibilities of Council in connection with the Project are outlined below:
- Ongoing - Engage external Project Manager (post Initiation Phase) and provide instructions to Project Manager
- Ongoing - Assist external Project Manager to procure project team (including design and construction)
- Ongoing - Participate in the Project Control Group Year 1 - Review, comment upon and sign off on design elements of the Project
- Year 1 - Review, comment upon and sign off on DA and all other applications including plans
- Ongoing - Review and action claims for progress payments from consultants/contractors
- Ongoing - Providing regular Project updates to Council
- Ongoing - Reviewing quality of contractor's work and notifying defects
- Ongoing - Manage budget
- Ongoing - Manage consultants
- Ongoing - Manage risks

Council will likely engage an independent certifier to oversee certain matters associated with the contractual arrangements (including variations, extensions of time, defects and sign off certifying that milestones have been achieved (including Practical Completion).

A Project Control Group will be created to oversee the Project. More details concerning the arrangements of this group are set out in the Probity and Governance Plan (see **Attachment H**).

A Risk Management Plan for the Project has been prepared and will continually be reviewed and updated by the Project Team. **Attachment I** comprises the Risk Management Plan for the Project.

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Options/Alternatives

Three viable options were initially identified by Council as follows:

- Option 1 – A Campus Model Option where existing assets are refurbished and adapted to the needs of the organisation
- Option 2 – A Single Site Option that sees the amalgamation of the majority of staff into a single building
- Option 3 – Continue to operate as is; also considered a "Do Nothing" option

The third 'Do Nothing' Option was considered not viable and therefore not pursued in the Business Case. Each remaining option involves a moderate amount of construction and re-arrangement of internal fit out, and movement of staff to alternative offices to amalgamate teams and operational functions. The two remaining options explored in the Business Case are detailed in the table below.

Option	Description
Option 1 (Campus Option)	The Campus Model Option explored re-using the existing assets, refurbishing the fitouts, undertaking necessary renovation works and relocating teams to Forster or Taree buildings, depending on the business' best fit. This option contemplates;
	MCC operating the four existing and separate sites in Taree and Forster (note that at the time of the preparation of the Business Case, there were 4 sites, which have subsequently been reduced to 3 sites)
	Refurbishing and completing some lifecycle maintenance (on the four buildings) to accommodate different business streams
	Staff will need to move between the four buildings to align teams and support functions
	Staff will also need to move within the four buildings as MCC seeks to upgrade and refurbish the offices
	The Biripi Way site will need to be leased or sold (for comparison purposes, the Business Case assumed that the site will be sold)
Option 2 (Single Site Option)	Relocation to the Single Site Option. This option contemplates;
	Providing accommodation for 350 Council staff largely within the existing footprint of the Biripi Way Site in Taree
	Relocating staff from four offices (now 3) in Taree and Forster
	It also considers the highest and best repurpose / sale of the legacy sites (for comparison purposes, the Business Case assumed that the four sites would be sold)
	A small number of staff will remain in Forster to maintain a level of customer service in the area

The Business Case confirmed that with the exception of initial Capital Outlay, the Single Site Option returns benefits for all other impacts: higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies – all relative to the Campus Model Option.

In the Business Case, the investment criteria for the Single Site Option – net present value (NPV) and benefit cost ratio (CBR) – were strong. The NPV was positive and exceeded 1.0.

The Business Case also confirmed that the assessment for the Single Site Option remained positive when large benefits were excluded, specifically, cost efficiencies and residual value. It is also positive for all variations if the higher discount rate of 7% is used.

The Single Site Option, under the Savills Business Case was the Preferred Option.

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Financial implications

In addition to the expenditure of $7 million (plus GST) for the acquisition of the Premises in December 2017, Council expended approximately $37,000 (plus GST) associated with that acquisition.

As at November 2018, Council has expended approximately $200,000 plus GST in connection with preliminary investigations for the Project (Initiation Phase). This expenditure has been approved by Council and funded out of Council's Land Development Reserve.

The Cost Plan identified that the budgeted total building cost (based on an assumed Test Fit Design) for the proposed Project is $18.093 Million (plus GST and plus IT/AV costs). See **Attachment D** for the Cost Plan.

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Public consultation process

A community engagement strategy has been developed to engage with our community on the funding arrangements proposed in the draft Financing Strategy.

The Community Engagement Strategy (see **Attachment F**) provides for a six-week engagement period from 5 November to 14 December 2018. The feedback received during the engagement period will be reported back to Council and the community early in 2019.

The strategy steps out the key messages, activities and program for the engagement period. Implementing the strategy will provide the community with information on the proposal to ensure they are informed of the benefits and costs of the project as well as how it will be funded and how services will be provided to the community.

The outcome of Council's community consultation process for this project will be documented upon its completion and reported separately to the Division of Local Government - Department of Premier and Cabinet.

CAPITAL EXPENDITURE REVIEW ADDITIONAL REQUIREMENTS

Further information in connection with the Project can be found in the following attachments:

Business/Management Project Plan - Attachment J

Risk Management Plan - Attachment I

Probity and Governance Plan - Attachment H

Procurement Plan - Attachment K

Attachment A:
Savills Business Case (Jan 2018) and updated Syneca Cost Benefit Analysis Report
(23 Oct 2018)

[Refer to Report presented at Council Meeting held on 28 February 2018 for a copy of this document - see Council's website]

Attachment B: Gateway Process Diagram

[Refer to Report presented at Council Meeting held on 20 December 2017 for a copy of this document - see Council's website]

Attachment C: WMK Test Fit Design (July 2018)

[Redacted in full - this document is commercial in confidence and not for public distribution]

Attachment D: Slattery Cost Plan (July 2018)

[Redacted in full - this document is commercial in confidence and not for public distribution]

Attachment E: Draft Financing Strategy (Oct 2018)

[Refer to Report presented at Council Meeting held on 31 October 2018 for a copy of this document (public copy) - see Council's website]

Attachment F: Engagement Strategy

[Refer to Report presented at Council Meeting held on 31 October 2018 for a copy of this document - see Council's website]

Attachment G: Knight Frank Property Reports (June 2018 and Sept 2018)

[Redacted in full - this document is commercial in confidence and not for public distribution]

Probity and Governance Plan

Mid-Coast Council
Proposed Office Relocation
2 Biripi Way, Taree

November 2018

1. Introduction

1.1. Background

On 12 May 2016, the former Greater Taree City Council, Great Lakes Council and Gloucester Shire Council were amalgamated to create Mid-Coast Council (**Council**).

The merger resulted in Council operating from a number of administration offices within the Local Government Area. A review of these operations confirmed that operating and maintaining a single head office location is significantly more cost-effective than continuing to operate across multiple sites.

With that in mind, on 2 November 2017, Council resolved to acquire the former Masters building and site which is located at 2 Biripi Way Taree being folio identifier 1/1185504 (**Premises**) for $7 million. The Premises had been identified as having the potential to become the administrative headquarters of Council and would allow for the centralisation of administrative staff.

The benefits of the proposed office relocation include:

- Improved collaboration for more efficient service delivery

- Streamlined and consistent processes

- Reduced operating costs

- Reduced maintenance costs

- Opportunity to reduce council's carbon footprint

- Reduced travel time and improved staff productivity

- A modern facility suitable for future growth

- Incorporates one of five customer service centres, with over-the-counter customer service retained in all existing locations including Forster, Taree, Tea Gardens, Gloucester and Stroud

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes (**Project**). The budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this amount is in addition to the $7 million acquisition cost for the Premises .

1.2. Purpose of this plan

The purpose of this plan is to provide a framework that ensures the highest standards of probity and transparency are maintained throughout the Project.

This plan provides guidance on the application of the probity principles to the Project. The specific objectives of this plan are to:

- Fulfil the requirements of the DLG Capital Expenditure Guidelines (as applicable);

- Identify the probity risks that arise for the Project and record the mitigation actions required to address these risks;

- Document processes that will support the meeting of high standards of probity;

- Detail roles and responsibilities of persons involved in the Project as they relate to probity; and

- Describe the role of the Probity Adviser and encourage Council members and officers to discuss any probity related issues with the Probity Adviser.

1.3. Statement of Business Ethics

Council has an adopted Statement of Business Ethics – a copy of which is set out in Council's website www.midcoast.nsw.gov.au.

The Statement of Business Ethics sets out the standard of behaviour that Council will exhibit and expects from the private sector when conducting business.

Council will comply with the Statement of Business Ethics when undertaking the Project including ensuring community funds are expended efficiently, effectively and economically and aims to attain "best value for money" in its business dealings with the private sector.

"Best value for money" is determined by considering all the factors, which are relevant to a particular purpose, for example:

- Experience;

- Quality;

- Reliability;

- Timeliness;

- Service;

- Initial & ongoing costs.

It is important to note that "Best value for money" does not automatically mean the "lowest price". It means the offer that is most advantageous to Council after considering the above factors. Staff and Councillors are expected to act in accordance with this Code of Conduct and to maintain the highest standards of ethical behaviour consistent with the positions they hold. Equally, suppliers and business partners are expected to demonstrate the equivalent behavioural standards.

1.4. Probity declaration

All Council officers and consultants associated with the Project must provide Council with a "Conflict of Interest and Confidentiality Undertaking" declaration form. These forms are recorded against the Project file. An example of the "Conflict of Interest/Confidentiality Undertaking" declaration is annexed as Attachment A to this plan.

2. Probity

2.1. Probity fundamentals

The Project is being conducted in a manner that accords with the "probity fundamentals" as stated in the NSW Independent Commission Against Corruption (ICAC) document Probity and Probity Advising – Guidelines for Managing Public Sector Projects. These probity fundamentals are:

- Obtaining value for money
- Maintaining impartiality
- Managing and/or declaring conflicts of interest
- Maintaining accountability and transparency
- Maintaining confidentiality

This plan has been developed to assist in ensuring that the probity fundamentals are met and specific risks that could undermine them identified and appropriately managed.

2.2. Conduct requirements

All Project participants have a responsibility to ensure that their personal behaviour does not adversely impact on the integrity of the Project. Each person is to:

- Act in accordance with the Probity Plan and other approved plans guiding the Project and their role

- Be transparent in relation to personal interests potentially impacting or impacted by the Project

- Not engage in an assessment or decision making role where there is any real, perceived or potential conflict of interest that could be seen to undermine that role, and declare such interests immediately to the Project Manager

- Behave impartially, honestly and fairly

- Maintain the confidentiality of confidential information

- Act at all times in a professional manner

- Not to offer or accept any gifts, hospitality or other benefits that may, or be perceived to, affect the integrity of the Project

- Not make public comment about the Project without appropriate authorisation

- Report any breaches of this plan, or other probity concerns, to the Project Manager and probity advisor immediately

- Maintain appropriate records in relation to activities, deliberations and decision making concerning the Project

- Observe the requirements of Council's Code of Conduct

- Act in accordance with the probity principles set out in Attachment B

2.3. Application of the probity and ethical principles

Council's Code of Conduct

Council's Code of Conduct (Code) is a formally adopted corporate policy applicable to the Mayor, Councillors, employees, contractors and volunteers working for and on behalf of Council – available on Council's website www.midcoast.nsw.gov.au

It provides for ethical governance and appropriate conduct in relation to all of Council's activities.

All aspects of this Project are to be carried out in full compliance with Council's Code of Conduct and all other corporate policies in addition to the principles espoused in this plan.

Probity definition

The Macquarie Dictionary definition of probity is "integrity, uprightness, honesty".

Within Local Government, the word "probity" is often used in a general sense to refer to "an appropriate process".

Obtaining value for money and Maintaining Impartiality

This is the principle objective of all procurement activities required for the Project. Impartial, open and competitive processes are important in achieving value for money. An EOI or tender process should be used that aims to achieve best value for money, is consistent with 'best practice' according to current Government policy and allows capable organisations to submit competitive offers and be considered for the Project in an impartial manner.

Managing conflicts of interest

Conflicts of interest arise when there is a conflict between a public official's public duty and their private interests, where those private interests could improperly influence the performance of their official responsibilities.

Council members, officers and advisers involved in the Project must comply with Local Government conflict of interest requirements.

Conflicts of interest can be actual, perceived or potential. Failure to declare and/or effectively manage conflicts of interest can damage the integrity of the Project, therefore eroding public or market confidence.

Managing conflicts of roles for Councils as property owners

A further conflict can arise where Council owned property, as in this Project, is the subject of development. The ICAC in its publication "Corruption risks in the development approval process" (September 2007) noted that a consent authority has a conflict of roles between its different functions as a developer and land use regulator. In this circumstance, a Council is required to take steps to separate the property owner role from the decision-maker role as a regulator and approver of development applications and construction certification.

Maintaining accountability and transparency of the process

Public sector accountability requirements are intended to save money, resources and time in the long term and prevent corruption, maladministration and substantial waste of public resources.

All Council members and officers should be accountable for their actions associated with the Project.

All key activities and decision-making associated with the Project should be recorded.

Transparency helps ensure that the Project is conducted with integrity, thus enhancing competition and the delivery of value for money, as well as reducing opportunities for corruption, maladministration and substantial waste of public money.

Maintaining confidentiality and security

A significant quantity of confidential information will be generated during the course of the Project, particularly the procurement phase. Breaches of confidentiality requirements can compromise the integrity of the Project and lead to outcomes that do not represent best value for money. The processes adopted for receiving, managing and disseminating information are to ensure the security and confidentiality of intellectual property, proprietary information or otherwise sensitive information.

Conduct guidelines

Council members and officers have a responsibility to ensure that their personal behaviour does not adversely impact on the integrity of the Project. They are responsible for:

- Acting in accordance with this plan, evaluation plans for procurements and other approved processes;

- Not making public comment about the Project without appropriate authorisation and in accordance with any approved communications strategy applicable to the Project

- Discussing probity risks identified or other probity concerns with the Project Manager and/or the Probity Adviser with a view to maintaining the integrity of the Project

- Where relevant, reporting any suspected breaches of this plan to the Probity Adviser immediately.

2.4. Key Probity risks

Prior to the commencement of the Design Phase of the Project, the Project Team will prepare a Probity Risk table to identify specific probity risks, the mitigation actions required and to allocate responsibility for implementation of the mitigation actions. The Probity Risk Table will complement the Risk Management Plan and Risk Register developed for the Project. The level of risk will be assessed utilising the risk management methodology outlined in the Risk Management Plan.

3. Project Governance

The approved Gateway Process for this Project ensures that nominated stages are governed by decision points whereby Councillors and the Project Control Group (as applicable) determine if and how the Project proceeds.

The Director of Corporate and Business Systems is the Council officer directly responsible for the delivery of the Project.

In order to ensure the effective and efficient delivery of the Project, the Director of Corporate and Business Systems has convened a "Project Control Group" or **PCG** comprised of Council officers and external consultants. Members of the PCG are detailed below.

The PCG will take all prudent and necessary action to fulfil the Council resolutions regarding Project and will regularly report on progress to General Manager.

The General Manager will provide status updates to elected Council in a timely manner in the format he feels is appropriate.

3.1. The Gateway Process

Council has implemented a gateway process system for this Project whereby the project will be undertaken in a staged gateway manner, which will assist with ensuring that optimal outcomes are achieved for Council and the community on time and on budget. This process will also provide the necessary control to ensure this Project can be governed through a series of decision points.

The proposed Gateway Process comprises the following stages:

- **Initiation Stage** focussing on the project concept: This stage would involve Council agreeing that the project is feasible (following consideration of the high-level business case) and potentially affordable, subject to further investigation. Council would also be required to commit to resources to investigate concepts to inform the design and confirm feasibility. In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed. This stage contains a number of decision points.

- **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program.   At this stage, resources would be committed to design and refine costs and schedule estimates.

- **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre-construction activities and project outcomes. Confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders assessed and successful tenderer appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

- **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

- **Finalisation:** Agree on costs, benefits and lessons learned

This process will be refined as the project parameters, scope and outcomes become more certain.

3.2. Project Control Group

Establishment

The PCG has been established by the Director of Corporate and Business Systems to ensure that the key project deliverables are achieved. The PCG is comprised of the following:

- Director of Corporate and Business Systems

- Manager, Finance

- Manager, Corporate Strategy and Development

- Manager, Property and Commercial Services

- Manager, Governance

- Such other internal officers and external consultants nominated by the Director of Corporate and Business Systems from time to time

Role of the PCG

The role of the PCG is to:

- Set the strategic direction for the Project

- Ensure that the decisions of Council in relation to the Project are carried out

- Ensure that Project directives issued by the General Manager are documented and enacted

- Oversee the implementation of this plan, the Project Plan and other plans prepared in connection with the Project, and report to the General Manager on progress

- Oversee the identification of Project risks and mitigate those risks through a risk management plan

- Oversee the implementation the Project and report to the General Manager on any project risk that changes in project scope may generate

- Act in accordance with the approved communication strategy to ensure that all stakeholders are kept up to date in a timely manner of the Project status.

- Report on all significant decisions concerning the Project to the General Manager

- Agree on a Project program and ensure the Project meets key milestones

Role of the General Manager

The General Manager, consistent with his overall management role under the Local Government Act 1993, will, in monitoring the activities of the PCG, be mindful of the considerations contained in this plan and make all reasonable endeavours to ensure that the community achieves the best commercial and planning outcomes in connection with the Project. The General Manager must to the best of his ability ensure the role of the PCG is properly performed. The General Manager can seek advice from relevant internal and external experts, as required.

Appointment of a Project Manager

The PCG will appoint a Project Manager to manage the construction phase of the Project in accordance with the Project Plan. Appointment of the Project Manager will be the subject of a separate procurement process.

3.3. Probity Adviser

Should the Project proceed beyond the Initiation Stage, the Director of Corporate and Business Systems has responsibility for appointing a suitably qualified person to act as the probity adviser in connection with the Project (**Probity Adviser**).

The Probity Adviser's objectives are to guide the process, independently monitor procedural aspects of the process and advise the Council on probity issues concerning the Project.

Broadly, the role of Probity Adviser is to:

• Oversee and advise on the conduct of the process;

• Monitor and advise whether the rules and procedures set out in this plan, the Project Plan and related documentation are followed;

• Provide probity reports in relation to the process and sign-off in relation to whether it has been conducted fairly.

Specifically, the Probity Adviser will:

• Act as an independent observer and provide advice and comment on the process;

• Ensure that all relevant parties in the process are aware of their responsibilities to disclose any conflict of interest;

• Monitor and assess all relevant procedures for the accountability, confidentiality and security of documentation related to the process;

• If requested to do so, attend and monitor meetings, as required;

• Provide advice to the PCG on probity issues, including how to resolve or manage issues as they arise;

• Scrutinise the process to determine whether applicable Council guidelines and policies have been followed;

- Submit reports to the Council, as requested or when considered necessary, to provide a record of the process confirming that probity has been observed and to report any probity issues that have arisen;

- If requested to do so, prepare a final probity report relation to the conduct of the process.

The Probity Adviser will report to the Director of Corporate and Business Systems on significant issues, in particular, those in which a conflict arises. The General Manager, acting with the advice of the Probity Adviser, will be the final arbiter in these matters.

CONFLICT OF INTEREST DECLARATION/ CONFIDENTIALITY UNDERTAKING

**Mid-Coast Council
Proposed Office Relocation
2 Biripi Way, Taree**

This Declaration is made by: …………………………………………………………….. *[Name of Declarant]* (**Declarant**) in relation to the Declarant's involvement in the Proposed Office Relocation Project - 2 Biripi Way (**Project**) being undertaken by Mid-Coast Council (**Council**).

This Declaration is made for the benefit of Council.

Conflicts of Interest
The Declarant confirms that he/she has been supplied with a copy of the Project Probity Plan and warrants to Council that, at the date of this Declaration, no circumstances exist that would give rise to a conflict of interest now or in the future in relation to the Declarant's involvement and participation in the Project other than as detailed as follows:
……
……
……
[Insert details of any conflict of interest or potential conflict of interest above (if any)]

The Declarant must:
(a)   not enter into any arrangements, schemes or contracts (however described) which may cause a conflict of interest to arise in relation to the Declarant's involvement and participation in the Project; and
(b)   promptly notify Council's Director of Corporate & Business Systems if the Declarant becomes aware of any circumstances that give rise to a conflict of interest or a potential conflict of interest and must provide sufficient details to accurately describe the nature of the conflict of interest or potential conflict of interest; and
(c)   submit to any action deemed necessary to manage such conflict of interest (actual or potential) to Council's satisfaction.

Confidentiality
The Declarant understands that information provided to him/her in connection with the Project may be of a confidential or sensitive nature. All information not already in the public domain in connection with the Project will be deemed to be confidential information for the purposes of this Declaration (**Confidential Information**).

The Declarant undertakes to keep all Confidential Information confidential at all times and not disclose that information to any other person (other than other members on the Project Team) (subject to the exemptions referenced below). The Declarant also agrees not to use the Confidential Information for any purpose other than for proper purposes in connection with the Project. The following exemptions apply (and the Declarant may make disclosures in the following circumstances):

(a)   Disclosure required by any law or statutory reporting body;

(b)   Agreement in writing by Council's Director of Corporate & Business Systems

Signature of Declarant: ………………………………..

Signature of witness: ………………………………..

Name of witness: ………………………………..

Date: ………………………………..

ATTACHMENT B

Ethical Principles

The following principles apply to all Council Tenders:

- Parties must conduct the process with honesty and fairness at all levels
- Parties must conform to all legal obligations
- Parties must not seek or submit Tenders without a firm intention to proceed
- Parties must not engage in any practice, including improper inducements, which give one party an improper advantage over another
- Proponents must be prepared to attest to their probity, and not engage in any form of collusive practice
- Conditions of Tendering must be the same for each Proponent on any particular Tender
- All requirements must be clearly specified in the Tender documents and criteria for evaluation must be clearly indicated
- Evaluation of responses must be based on the conditions of Tendering and selection criteria only as defined in the Tender documents
- Parties must not disclose confidential or proprietary information.
- Further, members of the Evaluation Panel are to sign and return declarations of confidentiality, which are to be filed appropriately
- Any party with a conflict of interest must declare that interest as soon as that party knows of the conflict
- All dealings between client and Proponents are to be transparent and able to withstand public scrutiny

These ethical principles apply to all parties in the Tendering chain, both Council and Proponent.

Council has established a comprehensive Statement of Business Ethics that applies to all Council officers, councillors, suppliers, Tenderers, Proponents, contractors & consultants. This statement is available to all providers of goods and services to Council and will be supplied to all Proponents along with other project documentation.

Even if goods & services providers agree to act ethically and are provided with information about how to go about doing so, this does not always ensure ethical practices. The formal Statement of

Business Ethics establishes the ground rules for contractors and suppliers working with Council as well as letting them know that ethics are important to Council. It also provides a baseline from which any deviations can be identified and rectified.

Under no circumstances is a Proponent to approach a member of Council's staff (other than the designated contact person for that Tender), or a Councillor, at any time during the calling of the Tender and during a period where a response has been submitted for evaluation, for the purpose of seeking more information, favourable treatment or for the purpose of offering certain inducements and gifts that may influence the evaluation of the Tender. If there is any evidence of corrupt behaviour from either a Tenderer or a Council staff member or Councillor, then all parties involved will be reported to the appropriate authorities.

Confidentiality

All Tender documents received by Council will be treated as confidential if the content of the documents contain intellectual property, proprietary, commercial-in-confidence or other confidential information. All members of any evaluation panel will be required to sign confidentiality agreements. These agreements will be filed on the relevant Tender assessment file.

Conflicts of Interests

Each member of any evaluation panel will be required to make conflicts of interest declaration at the onset of relevant procurement process. Further, if at any stage a conflict of interest arises, the conflict is to be managed in accordance with Council's Code of Conduct. A "Disclosure of Interest by Designated Person" form must be completed and forwarded to the Director of that staff members' division. All conflicts of interest are to be filed in ECM and maintained in accordance with Council's Document Management Policy.

Attachment I: MCC Risk Management Plan (Nov 2018)

Risk Management Plan

Mid-Coast Council
Proposed Office Relocation
2 Biripi Way, Taree

November 2018

1.   Introduction

1.1. Background

On 12 May 2016, the former Greater Taree City Council, Great Lakes Council and Gloucester Shire Council were amalgamated to create Mid-Coast Council (**Council**).

The merger resulted in Council operating from a number of administration offices within the Local Government Area. A review of these operations confirmed that operating and maintaining a single head office location is significantly more cost-effective than continuing to operate across multiple sites.

With that in mind, on 2 November 2017, Council resolved to acquire the former Masters building and site which is located at 2 Biripi Way Taree being folio identifier 1/1185504 (**Premises**) for $7 million (plus GST). The Premises had been identified as having the potential to become the administrative headquarters of Council and would allow for the centralisation of administrative staff.

The benefits of the proposed office relocation include:

- Improved collaboration for more efficient service delivery
- Streamlined and consistent processes
- Reduced operating costs
- Reduced maintenance costs
- Opportunity to reduce council's carbon footprint
- Reduced travel time and improved staff productivity
- A modern facility suitable for future growth
- Incorporates one of five customer service centres, with over-the-counter customer service retained in all existing locations including Forster, Taree, Tea Gardens, Gloucester and Stroud

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes (**Project**). The budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this amount is in addition to the $7 million acquisition cost for the Premises.

1.2. Purpose of this plan

The purpose of this plan is to provide a framework for the effective management of all levels of risk associated with the Project. Its application will provide an effective basis for prudent decision making in all aspects of the Project.

This document will achieve this by defining the following:

- The project objectives and scope of risk management activities;
- The major risk sources and the criteria used to rate them;

- The process that will be adopted by the Project Control Group (**PCG**) to identify, analyse, evaluate, and treat risks (risk assessment) during the Project;

- How reporting on risk status, and changes to risk status, will be undertaken within the Project;

- Establish a sound framework for communicating risk management activities with all project stakeholders; and

- The roles and responsibilities for the management of risk.

A "Probity Plan" has been developed for the delivery of this Project and should be read in conjunction with this document.

2. Risk approach

Risk within this Project will be managed using the standards and procedures set out in AS ISO 31000:2018 – Risk Management – Principals and Guidelines. The Figure below (taken from AS ISO 31000:2018) is a graphic representation of management and decision making in respect of the Project will be integrated into the structure, operations and processes of Council.
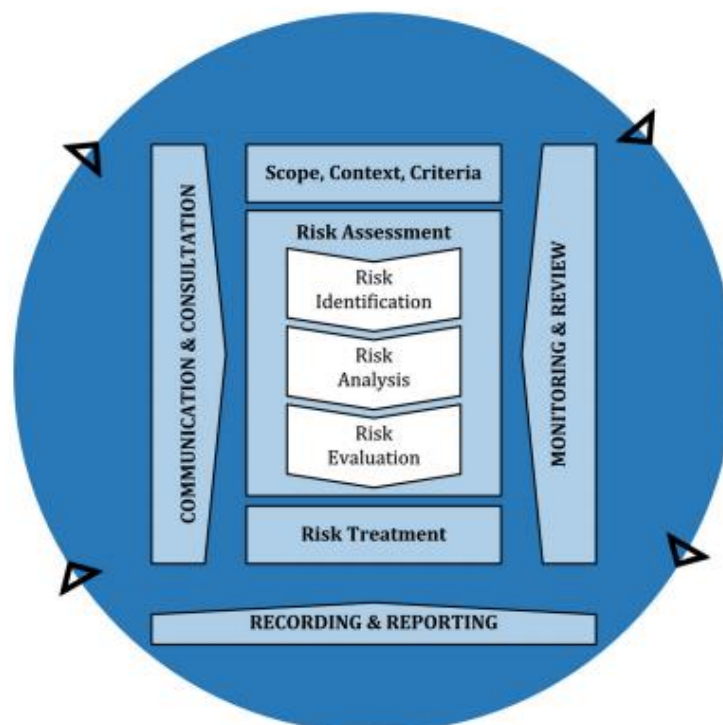

Figure 4 — Process

3. Gateway process

Council has implemented a gateway process system whereby the project will be undertaken in a staged gateway manner, which will assist with ensuring that optimal outcomes are achieved for Council and the community on time and on budget. This process will also provide the necessary control to ensure this project can be governed through a series of decision points.

The proposed Gateway Process comprises the following stages:

1. **Initiation Stage** focussing on the project concept: This stage would involve Council agreeing that the project is feasible (following consideration of the high level business case) and potentially affordable, subject to further investigation. Council would also be required to commit to resources to investigate concepts to inform the design and confirm feasibility. In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed. This stage contains a number of decision points.

2. **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program. At this stage, resources would be committed to design and refine costs and schedule estimates.

3. **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre-construction activities and project outcomes. Confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders assessed and successful tenderer appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

4. **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

5. **Finalisation:** Agree on costs, benefits and lessons learned

This process will be refined as the project parameters, scope and outcomes become more certain.

4. Managing risks

Risks in connection with the Project will be:

- identified by the PCG
- initially registered and assessed in the Project Risk Register (**PRR**); and
- managed based on the mitigation strategies identified in the PRR .

All efforts will be made to identify all known risks at the outset of the Project. The PRR will be used to update and include newly identified risk as the Project progresses.

Risk Structure

The following diagram provides an overview of the proposed risk system structure.
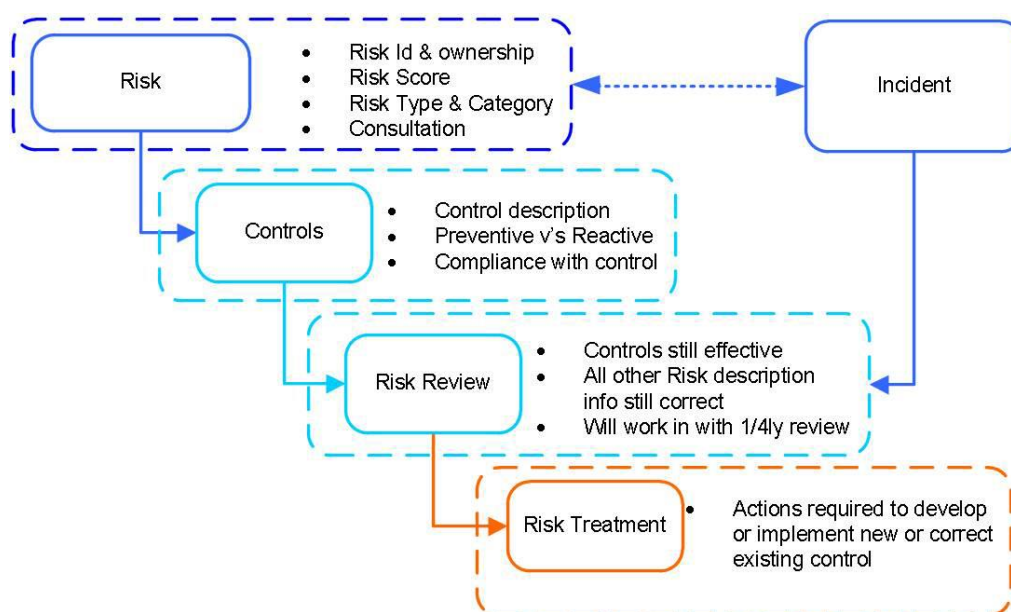
5. Risk categories

Consideration has been given to determining the main sources of risk for this Project. They include, but are not limited to the following risk categories:

Risk Categories		Risk Consequence Rating				
What could be the impact on the organisation and/or project if the risk occurs?		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
ORGANISATION Financial	Risks that have a financial impact on the organisation (revenue, expenses, assets, liabilities, reserves)	Negligible financial loss less than $10,000	Minor financial loss $10,000 - $100,000	Substantial financial loss $100,000 - $500,000	Significant financial loss $500,000 - $3million	Major financial loss >$3million
People	Risks that impact the safety and wellbeing of staff and the community	Insignificant injury, no first aid required; no impact on staff morale / performance / culture	Minor injury; first aid required; minor impact on staff morale/performance in single business area of organisation	Medical attention; several days leave; substantial impact on staff morale/performance in some business areas of organisation	Long term illness or injury; extensive leave required; significant impact on staff morale/performance across multiple areas of organisation	Could kill or cause permanent disability or ill health; major ongoing impact on staff morale/performance across entire organisation
Service Delivery	Risks that impact the ability to deliver internal / external services and/or the expected level of service delivery	Isolated, minimal impact on service delivery (<1 day); no/minimal inconvenience to customers	Minor impact on service delivery (1 day - 2 weeks); some inconvenience to customers; isolated customer dissatisfaction / complaints	Substantial impact on service delivery (2 weeks - 1 month); substantial inconvenience to customers and customer dissatisfaction / complaints	Significant impact / disruption to key service delivery (1 month - 2 months); significant inconvenience for customers and high level of customer dissatisfaction / complaints	Extensive impact / disruption to key service delivery (> 2 months); major inconvenience for customers and systematic/serious customer dissatisfaction / complaints; potential threat to viability of organisation
Compliance	Risks that impact compliance with legislation and regulatory requirements	Warning or issue of improvement notice; minor fine/penalty	Minor breach of legal obligations; adverse finding; minor fine/penalty	Substantial breach of legal obligations; adverse finding; substantial fine/penalty	Significant breach of legal obligations; adverse finding; significant fine/penalty	Major breach of legal obligations; adverse finding against individuals and/or the organisation; imprisonment; dismissal of Council; major fine/penalty
Environmental	Risks that impact the natural environment	Insignificant, immediately reversible impacts on the environment	Limited short to medium term, quickly reversible impacts on the environment	Potentially significant medium term reversible impacts on the environment	Severe, medium to long term potentially irreversible impacts on the environment	Critical, long term irreversible impacts on the environment
Reputation	Risks that impact Council's reputation with the community, media and government	Possibly some concern / enquiries from the community; no media / government attention	Minor unfavourable local media attention; minimal community and local government concern	Adverse short-term local/state media attention; increased community concern / criticism; some local / state government concern	Intense community and national media scrutiny; medium term loss of trust within factions of the community; adverse state government enquiry / intervention	Sustained adverse national media attention; complete and ongoing loss of community trust; major adverse state government action / loss of support
PROJECT Project Budget	Risks that impact the ability to deliver project outcomes within budget	Slight impact on budget, manageable within funding	Marginal budget over-run, within management reserve	Substantial budget over-run outside any contingency reserve, may require extra resources	Critical budget over-run requiring additional funds	Major impact on the project's viability and may lead to cancellation
Project Timeframe	Risks that impact the ability to deliver project outcomes within timeframe	Negligible impact on milestones, manageable within resources	Marginal impact on milestones, manageable within resources	Substantial impact on milestones and major activities, may not affect implementation date	Critical impact on milestones and major activities, requiring re-baselining of implementation date	Major over-run affecting many milestones. May lead to cancellation / inability to deliver services to plan.

6. Risk criteria

Setting risk criteria helps define and articulate how risks and their impact will be evaluated and measured throughout the Project. Consideration will be made in relation to:

- The causes and consequences of risk;
- How likelihood with be defined;
- How consequences will be defined; and
- Ultimately what impact particular risks will have on the overall project objectives?

The PCG will be responsible for reviewing and implementing the PRR and outlining the main sources of risk and their agreed impact depending on the risk severity.

Risk Likelihood Rating		How likely is it that the risk will occur?
Rare	1	The event may occur but only in exceptional circumstances; No past event history; More than 25 years
Unlikely	2	The event could occur at some time; No past event history; Within 10-25 years
Possible	3	The event might occur at some time; Some past warning signs or previous event history; Once every 10 years
Likely	4	The event will probably occur in most circumstances; Some recurring past event history; Once a year
Almost Certain	5	The event is expected to occur in most circumstances; There has been frequent past history; More than once a year

7. Risk matrix

Council's Risk Rating Matrix will be utilised to rate the likelihood and consequences of each risk with the ultimate goal to assigning a rating. To ensure the accuracy of risk ratings, all decisions made will consider the most current data available, relevant to the risk source.

Risk Rating Matrix		Risk Consequence Rating				
Risk Likelihood Rating		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (6)	High (7)	High (8)	Extreme (9)	Extreme (10)
Likely	4	Medium (5)	Medium (6)	High (7)	High (8)	Extreme (9)
Possible	3	Low (4)	Medium (5)	Medium (6)	High (7)	High (8)
Unlikely	2	Low (3)	Low (4)	Medium (5)	Medium (6)	High (7)
Rare	1	Low (2)	Low (3)	Low (4)	Medium (5)	Medium (6)

8. Risk ownership and action plans

8.1. Risk owner

This is the person with the highest level of responsibility for the risk – it will generally be GM for Project Risks. The Risk Owner is responsible for ensuring that:

- the responsible officer manages the relevant risk appropriately;

- the responsible officer reviews and signs off controls to mitigate the relevant risk; and

- the appropriate mitigation strategies are implemented and complied with.

8.2. Responsible officer

This is the person responsible for day to management and oversight of the risk or activity it relates to. This will generally be the responsible Risk Coordinator (or Risk Manager).

 The responsible officer is responsible for ensuring reviewing the risks, adjusting the current level of the risk, understanding and implementing the controls and undertaking and ensuring treatments are completed in the allocated time.

Once the risks are reviewed and signed off, the controls are implemented and complied with, this is work flowed to the Risk Owner for approval.

Risk identified in the PRR will be allocated to a Risk Owner, Responsible Officer /Consultant for development and implementation of a Control and/or treatment plan. Development of the treatment plan will take place with the assistance of Council's Risk Co-ordinator.

The Responsible Officer will use accurate information from credible sources to develop and monitor risk treatments in consultation with the PCG/Stakeholders and the Risk Co-ordinator.

Responsible Officers will utilise the information provided in the RMS in developing controls and/or treatments plans in allocated time frame. Responsible Officers will report on the progress of risk analysis and treatment to the PCG and Risk Owner based on predetermined time frames for each risk or as agreed with the PCG.

For the purpose of this plan, suitable candidates for "Responsible Officer" in consultation with their team members are to complete a review of an existing risk profile / risk assessment and update it with changes, ensure the treatment plan is developed, and controls are implemented and monitored.

Responsive actions and escalation		
Residual Risk Rating	**Action required**	**Responsibility**
Extreme	• Cease activity, process or task until further directed • Seek immediate Director attention and decision as to whether to proceed with the activity, process or task (detailed and documented investigation to be undertaken as part of decision making process) • If activity, process or task to continue, additional corrective / preventative controls must be planned and implemented to reduce the risk to an acceptable level • Director / Manager to allocate resources and staff responsibility to plan and implement additional controls • Continue to closely monitor, review and report on the risk	Staff member / Manager / Director
High	• Seek immediate Management attention and decision as to whether to proceed with the activity, process or task • If activity, process or task is to continue, Manager to allocate resources and staff responsibility to improve existing controls and/or implement additional controls to further reduce the risk • Continue to closely monitor, review and report on the risk	Staff member / Manager
Medium	• Staff member to consider if level of risk is acceptable and consult with Manager prior to proceeding with activity, process or task • Where existing controls deemed inadequate, allocate resources and responsibility to improve existing controls and/or implement additional controls to further reduce the risk • Continue to monitor, review and report on the risk	Staff member / Manager
Low	• Manage risk through existing processes and procedures - "business as usual" • Continue to monitor, review and report on the risk	Staff member

Control Effectiveness Rating	How effective are the controls at reducing the risk? (This will inform your Residual Risk Rating)
Effective	Control is mostly reliable, efficient and effective; will significantly reduce the risk likelihood and/or consequences; fully documented processes and well communicated.
Somewhat effective	Control is somewhat effective; will have some effect on reducing risk likelihood and/or consequences; additional action required to improve existing controls and/or possibly implement some additional controls; improved documentation and/or communication of controls required
Ineffective	Control is not reliable, efficient or effective; will not reduce the risk likelihood and/or consequence; reliable, effective and efficient controls to be developed and implemented; controls need to be documented and communicated
**Controls** _are policies, procedures, systems, etc. implemented to reduce, avoid or manage the risk_	

9. Risk assessment

Risk assessment throughout this Project will use the guidelines outlined in AS ISO 31000:2018 and assessment techniques in ISO 31010.

**Identification**

Risk identification involves determining which risks are likely to affect the Project objectives. It involves the identification of risks that may lead to Project outputs being delayed or reduced, budget over runs or a reduction in the quality of project outcomes.

Throughout this Project, the PCG will use a rigorous decision making model to identify Project risks. The intention is to minimise uncertainty and drive action plans that effectively progress Project outcomes.

The following methods may be utilised to do so;

• Structured brainstorming sessions involving key stakeholders;

• Self-assessment questionnaires;

• Discussions with expert consultants;

• Analysis of reports and work breakdown structures; and

Risk identification activities are an integral part of governance of the Project in all phases. All identified risks will be recorded in the RMS.

Analysis

Risk analysis involves developing an understanding of risk in relation its source, likelihood of occurrence, consequences of occurrence, and overall impact on the project objectives. Analysis of risk also involves review of current controls and assessing risks against the predetermined risk criteria.

The Risk Matrix provides the tool to define consequence, likelihood and therefore level of risk. It also provides a guide to evaluate the level of risk against standard criteria to determine what type of action is required.

The PCG will use the Council Risk Matrix assess and analyse risks against an agreed set of criteria. Consideration will be given to the cause and source of each risk and its relationship/effect on other project risks.

Pre Control Evaluation

The evaluation of risk is essential to determine what risks require treatment and what risks can be retained. Evaluation of risks also involves the ranking of risks in order of priority for treatment and discussing their relationship and impact to other identified risks. Ultimately risk evaluation should determine whether the resultant outcome was appropriate or whether further investigation is required.

Risk evaluation will be undertaken by the PCG in consultation with Key Stakeholders to determine if risk ratings and risk impacts are current and realistic or whether further action may be required. The PCG will rank risk according to the risk rating and impacts to determine what risks require treatment.

Control

Risk Control involves the process of determining a strategy that either reduces modifies or eliminates a risk. Risk treatment involves a process of:

• Selecting a treatment;

• Assessing its effect on the risk;

• Deciding whether the residual (outstanding) risk is acceptable;

• If not, altering the treatment; and

• Deciding to implement the treatment.

The following options are available when treating risks:

• Avoiding activity that give rise to the risk;

• Removing the source of the risk;

• Activities to alter the likelihood of occurrence;

• Sharing the risk with other parties i.e. Insurance, Contract Agreements etc; and

• Retaining the risk based on an informed decision.

Treatments should be selected based on cost/effort versus benefit/outcome. The PCG recognises that some risks involve multiple treatments and that some actions may result in negative impacts on other identified risks. Therefore all treatment strategies will undergo review by PCG to ascertain

their impact on reducing the risk, the cost/effort versus benefit/outcome, and whether the appropriate information/technical sources have been used in its development.

10.   Monitoring and reporting

Risks entered into the RMS will be monitored and reviewed on a periodic basis subject to their rating and impact. This is ultimately to determine whether the rating and/or treatment is still relevant to the risk or requires updating.

The PCG will include review of risk management activities as a permanent item on project meeting agendas.

It is imperative that there are clear reporting lines for risk throughout the project cycle.

Risks included in the RMS are to be reviewed by Responsible Officer.

11.   Communication and consultation

Communication and consultation in relation to risk and risk management strategies is important for project stakeholders.

The PCG will develop a Project Stakeholder Register (PSR) register to manage and coordinate all communication for the planning and execution of the project.

12.   Decision making framework

It is essential that all decisions pay regard to the risk management process. To ensure that all Project decisions are prudent, comprehensive and can withstand scrutiny, the PCG will establish a decision making framework and will record all project decisions on a centralised decisions register.

13.   Risk management responsibilities

Council

• Receive and review Project reports which will include updates on more significant risks associated with the Project

General Manager

• Review high level risks identified by the PCG and implement risk treatment plans as appropriate;

• Report to Council on the progress of risk management activities; and

Project Control Group

• Develop and maintain this plan and the PRR;

• Identify, analyse, evaluate, and treat all risks (risk assessment) associated with the Project on a holistic basis;

• Review all risk ratings and treatments on a periodic basis as required by the PRR;

• Report to the General Manager on the progress of risk management activities; and

• Consider advice from the Risk Co-ordinator/Manager in relation to risk assessments, risk sources, and risk treatments.

Risk Co-ordinator/Manager

• Develop and maintain this plan and the PRR

• Monitor the PRR and assist with risk assessments. Develop risk identification tools and risk treatment plans and evaluate their effectiveness and impact on the original project objectives;

• Review all risks entered into the PRR and follow up with the PCG to ensure risks are managed in an appropriate and timely manner; and

• Ensure risk management is considered in all aspects of Project planning and execution.

Action Officers

• Assist PCG and Risk Coordinator/Manager with risk identification;

• Conduct risk analysis with regard to the most up-to-date data;

• Develop treatment plans in conjunction with PCG and Risk Coordinator/Manager for risk allocated for action;

• Report all risks and risk issues to Risk Coordinator/Manager within the required timeframes.

Business/Management Project Plan

Mid-Coast Council
Proposed Office Relocation
2 Biripi Way, Taree

November 2018

1. Introduction

1.1. Background

On 12 May 2016, the former Greater Taree City Council, Great Lakes Council and Gloucester Shire Council were amalgamated to create Mid-Coast Council (**Council**).

The merger resulted in Council operating from a number of administration offices within the Local Government Area. A review of these operations confirmed that operating and maintaining a single head office location is significantly more cost-effective than continuing to operate across multiple sites.

With that in mind, on 2 November 2017, Council resolved to acquire the former Masters building and site which is located at 2 Biripi Way Taree being folio identifier 1/1185504 (**Premises**) for $7 million (plus GST). The Premises had been identified as having the potential to become the administrative headquarters of Council and would allow for the centralisation of administrative staff.

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes (**Project**). The budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this amount is in addition to the $7 million acquisition cost for the Premises .

1.2. Purpose of this plan

The purpose of this plan is to provide the following in relation to the Project:

- Outline the scope and objectives of the Project

- Identification of the costs and funding requirements

- Timing of key stages of implementation;

- Key personnel and their experience;

1.3. Other project documentation

This plan is to be read in conjunction with all other documentation that has been prepared in connection with the Project including:

- Procurement Plan
- Probity and Governance Plan
- Risk Management Plan

2. Structure and making processes

The approved Gateway Process for this Project ensures that nominated stages are governed by decision points whereby Councillors and the Project Control Group (as applicable) determine if and how the Project proceeds.

The Director of Corporate and Business Systems is the Council officer directly responsible for the delivery of the Project.

In order to ensure the effective and efficient delivery of the Project, the Director of Corporate and Business Systems has convened a "Project Control Group" or **PCG** comprised of Council officers and external consultants.

The PCG will take all prudent and necessary action to fulfil the Council resolutions regarding Project and will regularly report on progress to General Manager.

The General Manager will provide status updates to elected Council in a timely manner in the format he feels is appropriate.

2.1. The Gateway Process

Council has implemented a gateway process system for this Project whereby the project will be undertaken in a staged gateway manner, which will assist with ensuring that optimal outcomes are achieved for Council and the community on time and on budget. This process will also provide the necessary control to ensure this Project can be governed through a series of decision points.

The proposed Gateway Process comprises the following stages:

- **Initiation Stage** focussing on the project concept: This stage would involve Council agreeing that the project is feasible (following consideration of the high-level business case) and potentially affordable, subject to further investigation. Council would also be required to commit to resources to investigate concepts to inform the design and confirm feasibility. In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed. This stage contains a number of decision points.

- **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program.   At this stage, resources would be committed to design and refine costs and schedule estimates.

- **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre-construction activities and project outcomes. Confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders assessed and successful tenderer appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

- **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

- **Finalisation:** Agree on costs, benefits and lessons learned

This process will be refined as the project parameters, scope and outcomes become more certain.

3. Need for change and Project objectives

Council and its staff are committed to serving their community. Council has recently undertaken two key organisational change events which have impacted the natural balance of workplace culture and organisational effectiveness:

- A three-way merger of the former Greater Taree City, Great Lakes and Gloucester Shire Councils

- Dissolution of MidCoast Water and integration into Council just over a year after the three-way merger

Staff now inhabit legacy sites that are dispersed over a large area in separate locations. Teams and administrative support functions remain separated.

The challenge of operating multiple offices in Forster and Taree is having a negative impact on productivity, morale and cohesiveness. There is a significant level of frustration which is impacting on the culture at Council.

Council now seeks to address these impacts and non-constructive workplace culture by improving the physical workplace environment and streamlining business operations.

The long term Project objectives include:

- Improved collaboration for more efficient service delivery

- Streamlined and consistent processes

- Reduced operating costs

- Reduced maintenance costs

- Opportunity to reduce council's carbon footprint

- Reduced travel time and improved staff productivity

- A modern facility suitable for future growth

- The incorporation of one of five customer service centres, with over-the-counter customer service retained in all existing locations including Forster, Taree, Tea Gardens, Gloucester and Stroud

4. Capacity, capability and key personnel

Council has demonstrated experience in managing and delivering large construction projects (including roads and building construction) as well as meeting the contractual, administrative and reporting requirements of various Federal and State government authorities.

Below is a table that outlines the nature and scope of relevant recent projects demonstrating Council's capacity and capability to deliver the Project successfully:-

Project	Budget	Status
Roads and bridges program	$100 million	In progress
Development & Construction of	$11 million	Complete

Supermarket and associated infrastructure - car park, roadways etc.		
Construction of new Cape Hawke Surf Life Saving Club	$1.5 million	Complete
Refurbishment of Tuncurry Waste Management Centre	$4.5 million	Complete
Civic Precinct Project (new library, visitor information centre, community facility)	$18 million	In progress

Council has a long established record of managing large projects and where the expertise is not available in house Council engages by way of public tender, expression of interest, or competitive quotation for the services of appropriately qualified professional consultants and contractors. Council also manages its projects effectively and has many controls and processes in place in which it can ensure delivery on time and on budget. These include but are not limited to:-

- Risk Management policies, procedures & plans

- Procurement Policies, procedures & plans

- Project plans

- Budget & Financial controls & systems

- Project control groups

- Probity plans

- Asset Management Plans - including ongoing operations

- Community Engagement strategies and measures.

The table below sets out the key Council staff proposed to be involved in the Project - these individuals are highly experienced in their nominated field. Council's internal project team will be supported by suitably qualified external consultants.

Name	Title	Area / BU	Project Role
Adrian Panuccio	General Manager		Project Leader
Steve Embry	Director	Corporate & Business Systems	PCG Chair Corporate Governance
Paul DeSzell	Director	Community Spaces and Services	Asset functionality and usage
Phil Brennan	Manager	Corporate Finance and Planning	Financial Control
Lynn Duffy	Manager	Corporate Strategy and Development	Workplace and corporate strategy/development
Rob Griffiths	Manager	Governance	Risk and governance
Allison Anthony	Acting Manager	Property & Commercial Services	Asset planning and management
Marcelle Boyling	Co-ordinator	Communications and	Community consultation and

		Engagement	internal communications
Russell Wallace	Co-ordinator	Procurement	Procurement
Paula Sciacca	Co-ordinator	Risk & Insurance	Risk & Insurance

5. Financial projections

Council engaged Slattery Consulting to prepare a Cost Plan (based on an assumed test fit design) to identify likely costs to undertake the project (based on the assumption that 350 staff will relocate).

The Cost Plan identified that the budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - this amount does not include the initial $7 million Premises acquisition cost (which was funded through loan borrowings).

The Cost Plan does not include allowance for AV/IT equipment. Council estimates that AV/IT equipment for the Single Site Option would be $2,656,336. By way of comparison, it has been estimated that AV/IT equipment costs for the Campus Model Option would be $3,911,336.

The Cost Plan does not make provision for AV/IT equipment costs on the basis that AV/IT costs will be incurred irrespective of whether the single site model or the campus model is ultimately selected and Council has made provision as part of its regular budgeting processes. This will occur as part of the scheduled hardware upgrade cycle. This information is included in the Final Cost Plan provided.

Financing Strategy

The financing strategy proposed for Council's consideration and approval comprises Attachment [   ]. This strategy involves a rationalisation of cash reserves, which in the main are the result of efficiencies in reserve fund holdings as a result of the Council merger; the sale of property assets, and loan funds with loans to be repaid from rental income received from leasing out retained properties surplus to Council's needs as a result of the office centralisation to Biripi Way.

Data and other market analysis on council assets provided by Knight Frank Newcastle informed the preparation of the financing strategy.

It is important to note that the financing strategy proposed is designed to minimise the impact on the current budget utilising Council's Balance Sheet and borrowings funded by lease rental to generate the necessary funds. There is no impact on the road improvement program Council has committed to and Special Rate Variation funds are quarantined to ensure they are expended on road projects.

In summary it is proposed in the Financing Strategy to fund the development of the Biripi Way site through the following means (the detailed Financing Strategy at Attachment A provides detail on the basis of these figures):

Cash Reserves	$7.2 Million
Sale of Property Assets	$4.8 Million
Loans	$8 Million
Total	$20 Million

The Financing Strategy is based on a total project cost of $20 Million. While the project estimate in the cost plan is $18 Million and this estimate includes significant contingency provision the financing strategy is based on $20 Million to provide an additional buffer. It is financially prudent to base the financing strategy on conservative figures. If the costs come in at the estimated $18 Million level loan borrowings would be reduced.

RSM Australia have been engaged to undertake a peer review of the Financing Strategy. The results will be reported to Council upon completion of that review.

Knight Frank Newcastle have been engaged to prepare an asset disposal report to enable Council to assess the benefit of disposing of one or more Council owned assets to contribute towards the funding of the project. Information in this report informed the preparation of the financing strategy.

Savills Business Case

Council engaged Savills Project Management Pty Ltd to prepare a Cost Benefit Analysis which compared the proposed Single Site Option (i.e. office relocation to Biripi Way) against the 'campus model' which involves utilisation of existing Council sites (with certain members relocating to a designated site to house the team in one location).

The finding by Savills in the Business Case was that after weighing up the costs and benefits of the relocation of the administration operations to a Single Site Option at the Premises against the refurbishment of the existing four administration sites and continued operation of a Campus Model Option, the Single Site Option is the preferred option.

The tables below evidence the analysis of the costs and benefits of each option and also provide indicative costs of projected capital costs and ongoing recurrent costs.

Table E.1   Cost benefit analysis of Single Site relative to the Campus option: present values for January 2018

	Baseline CBA	Excluding cost efficiencies	Excluding cost efficiencies and residual values
A. MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)			
Investment cost – initial construction cost	$7,515,707	$7,515,707	$7,515,707
Benefits			
Property sales, net of associated costs	$236,080	$236,080	$236,080
Capital replacement costs	$5,015,752	$5,015,752	$5,015,752
Operating costs (building O&M, vehicle costs, travel allowances)	$2,993,489	$2,993,489	$2,993,489
Residual value of buildings after 20 years	$2,763,455	$2,763,455	-
Cost efficiencies (travel time, operational efficiencies and contribution to workplace culture)	$69,716,755	-	-
Total benefits	$80,725,531	$11,008,776	$8,245,321
Net present value	$73,209,825	$3,493,069	$729,615
Benefit cost ratio	10.7	1.5	1.1

B. Impacts on non-MCC stakeholders

Access to MCC services by ratepayers and others in the Great Lakes area: no significant difference between Single Site and Campus option.

Staff travel costs due to longer commutes: No significant uncompensated losses and no significant difference between Single Site and Campus option.

Economic losses due to the diversion of household and council spending: The Single Site option diverts household and Council spending from Tuncurry-Forster to Taree, starting small but growing over time. This impact has not been quantified and it may be difficult to provide a credible assessment.

Table E.2   Breakdown of financial costs: present value for January 2018

(Note: negative costs are financial revenues or savings)

	Present values, January 2018		
	Single Site	Campus	Incremental cost of Single Site relative to Campus option
Property sales, net of selling costs			
Biripi Way	$0	-$6,429,480	$6,429,480
MCC, Forster	-$1,876,490	$0	-$1,876,490
MCC, Taree	-$1,869,276	$0	-$1,869,276
MCW, Taree	-$1,393,938	$0	-$1,393,938
MCW, Forster	-$1,477,623	$0	-$1,477,623
Sale of fitout	-$48,233	$0	-$48,233
Subtotal	-$6,665,560	-$6,429,480	-$236,080
Initial capital outlay			
Base building	$1,777,081	$20,012	$1,757,069
Internal walls and finishes	$3,223,201	$2,015,556	$1,207,645
Services	$6,803,664	$3,107,353	$3,696,311
FF&E, ex IT and audio-visual	$968,667	$1,075,792	-$107,125
Margins and adjustments	$5,491,163	$2,708,696	$2,782,467
IT and audio-visual	$1,850,981	$3,671,640	-$1,820,660
Subtotal	$20,114,756	$12,599,050	$7,515,707
Capital replacement expense			
Base building	$0	$1,860,411	-$1,860,411
Internal walls and finishes	$1,420,355	$1,008,631	$411,724
Services	$1,866,753	$1,321,103	$545,651
FF&E, ex IT and audio-visual	$1,032,186	$1,018,794	$13,391
IT and audio-visual	$4,237,542	$8,363,649	-$4,126,107
Subtotal	$8,556,835	$13,572,587	-$5,015,752
Residual value			
Base building	-$4,599,059	-$3,664,958	-$934,101
Internal walls and finishes	-$1,232,651	$0	-$1,232,651
Services	-$2,891,033	-$1,156,413	-$1,734,620
FF&E, ex IT and audio-visual	-$672,082	-$793,271	$121,189
IT and audio-visual	-$1,033,660	-$2,050,387	$1,016,728
Subtotal	-$10,428,485	-$7,665,030	-$2,763,455
Operating costs			
Building O&M	$11,998,382	$14,443,641	-$2,445,259
Vehicle expenses	-$2,741,147	-$2,192,918	-$548,229
Travel allowances	$1,759,087	$1,759,087	$0
Subtotal	$11,016,322	$14,009,810	-$2,993,489
Staff efficiencies			
Short term: travel efficiencies	-$3,793,165	-$3,034,532	-$758,633
Medium term: operational efficiencies	-$30,843,753	$0	-$30,843,753
Long term: cultural transformation	-$76,228,738	-$38,114,369	-$38,114,369
Subtotal	-$110,865,656	-$41,148,901	-$69,716,755
TOTAL	-$88,271,788	-$15,061,964	-$73,209,825

Table 3.6   Breakdown of O&M expenses

Option	Single Site (estimated by extrapolation)	Campus, average of 2016/17 and budgeted 2017/18				
Office		*MCC Admin Forster*	*MCC Admin Taree*	*Water Services Taree*	*Water Services Forster*	*Total*
A. Breakdown of Campus O&M plus estimate for Single Site						
Council rates and charges, including water & sewer		$18,891	$20,171	$7,844	$7,297	$54,203
Electricity		$52,925	$65,086	$59,462	$52,049	$229,522
Security		$5,473	$6,785	$19,250	$20,626	$52,133
Phone and internet		$0	$182	$56,000	$56,000	$112,182
Insurance		$30,502	$52,270	$4,417	$5,185	$92,374
Cleaning and sanitary services		$84,523	$75,700	$35,283	$29,397	$224,902
Maintenance						
Indoor, ex elevator		*$47,772*	*$67,146*			$114,918
Elevator			*$5,573*			$5,573
Outdoor		*$58,936*	*$4,276*			$63,211
Combined indoor & outdoor				*$27,461*	*$33,532*	$60,993
Subtotal		*$106,708*	*$76,994*	*$27,461*	*$33,532*	$244,694
Other			$7,556			$7,556
TOTAL	**$845,296**	**$299,021**	**$304,743**	**$209,717**	**$204,085**	**$1,017,566**
B. Calculation of the Single Site estimate						
Total O&M, ex. phone, internet & elevator	$733,296	$299,021	$298,989	$153,717	$148,085	
Add $112,000 for phone and internet	$845,296					
C. Unit costs ($/sqm)						
Building area (sqm)	9,910	3,020	3,250	980	1,030	8,280
O&M/sqm	$85.30	$99.01	$93.77	$214.00	$198.14	$122.89

Figure 3.1   O&M costs, excluding phones and elevators, 2017 prices
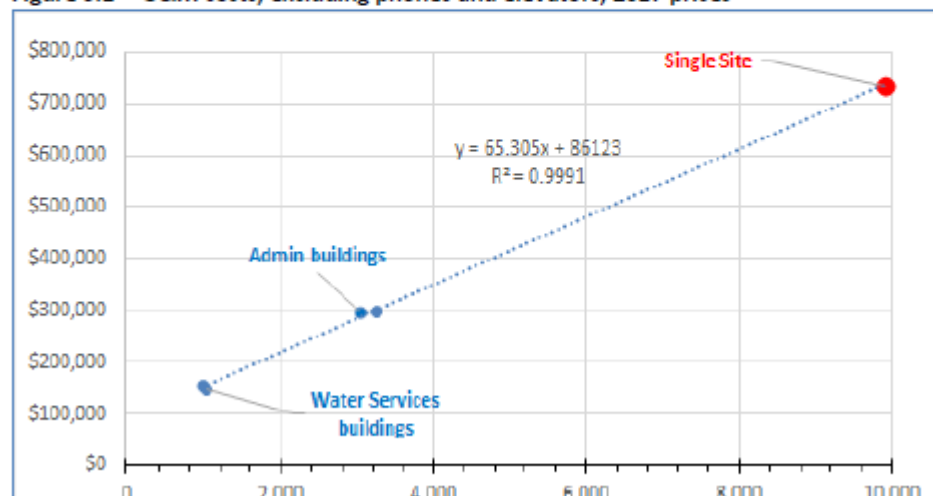
Further financial projections and analysis will be undertaken by Council once the Project is sufficiently progressed to base the projections on actual design rather than hypothetical scenarios.

Attachment K: MCC Procurement Plan (Nov 2018)

Procurement Plan

Mid-Coast Council
Proposed Office Relocation
2 Biripi Way, Taree

November 2018

1. Executive Summary

On 12 May 2016, the former Greater Taree City Council, Great Lakes Council and Gloucester Shire Council were amalgamated to create Mid-Coast Council (**Council**).

The merger resulted in Council operating from a number of administration offices within the Local Government Area. A review of these operations confirmed that operating and maintaining a single head office location is significantly more cost-effective than continuing to operate across multiple sites.

With that in mind, on 2 November 2017, Council resolved to acquire the former Masters building and site which is located at 2 Biripi Way Taree being folio identifier 1/1185504 (**Premises**) for $7 million (plus GST). The Premises had been identified as having the potential to become the administrative headquarters of Council and would allow for the centralisation of administrative staff.

The benefits of the proposed office relocation include:

- Improved collaboration for more efficient service delivery
- Streamlined and consistent processes
- Reduced operating costs
- Reduced maintenance costs
- Opportunity to reduce council's carbon footprint
- Reduced travel time and improved staff productivity
- A modern facility suitable for future growth
- Incorporates one of five customer service centres, with over-the-counter customer service retained in all existing locations including Forster, Taree, Tea Gardens, Gloucester and Stroud

The project involves Council investigating, and if deemed appropriate, carrying out works to plan, design and construct (fit out) the Premises to relocate 350 staff for office administration purposes (**Project**). The budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this amount is in addition to the $7 million acquisition cost for the Premises.

2. Gateway process

Council has implemented a gateway process system whereby the project will be undertaken in a staged gateway manner, which will assist with ensuring that optimal outcomes are achieved for Council and the community on time and on budget. This process will also provide the necessary control to ensure this project can be governed through a series of decision points.

The proposed Gateway Process comprises the following stages:

1. **Initiation Stage** focussing on the project concept: This stage would involve Council agreeing that the project is feasible (following consideration of the high level business case) and potentially affordable, subject to further investigation. Council would also be required to commit to resources to investigate concepts to inform the design and confirm feasibility. In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed. This stage contains a number of decision points.

2. **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program.   At this stage, resources would be committed to design and refine costs and schedule estimates.

3. **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre construction activities and project outcomes. Confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders assessed and successful tenderer appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

4. **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

5. **Finalisation:** Agree on costs, benefits and lessons learned

This process will be refined as the project parameters, scope and outcomes become more certain.

3. Procurement process

As at November 2018, Montlaur Project Services Pty Ltd (**Montlaur**) has been as the Project Manager on a staged basis to manage the Project. This appointment was made following a competitive tender process.

To date, Montlaur has provided services in connection with the Initiation Phase of the Project. Any further work to be undertaken by Montlaur in connection with the Project will be determined by Council on a stage by stage basis.

Council has engaged (in some instances, with the assistance of Montlaur) the following consultants to assist with work in connection with the Initiation Phase of the Project:

- Savills Project Management Pty Ltd (preparation of the Business Case)
- Montlaur Project Services Pty Ltd (project manager for the Initiation Phase)
- First State Property Valuers (property valuation)
- Rider Levett Bucknall (quantity surveying advice)
- WMK Architecture (preparation of test fits)
- Slattery Consulting (preparation of cost plan)
- Knight Frank Newcastle (preparation of property reports)
- Intelle Building Services (services investigations - mechanical, electrical, fire and hydraulics)
- Kudos Building Certification (Building Code of Australia compliance checks, report and reviews)
- RSM Australia (peer review of financial strategy)

Appointments referenced above have been made in accordance with Council's standard procurement processes and procedures and Procurement Policy including, where required, obtaining quotations before making the relevant appointment.

Should Council determine to proceed beyond the Initiation Phase, then it is proposed that the following milestones will apply (indicative only) in connection with the subsequent phases of the Project:

Milestone
Consultant Appointments
Project Manager Appointment (relevant stage)
Key Consultant Appointments
Other Consultant Appointments
Consultant Establishment
Project Documentation
Functional Brief
Concept Design
Design Development
Tender Documentation
Construction Documentation
Development Application & Certification
Review of Design Documentation
Council Review & Approval
Construction Certificate
Tender & Contractor Appointment
Tender Period (Head Contractor)
Tender Review, Interviews & Recommendation
MCC Review
MCC Approval & Engagement of Contractor
Construction
Construction (Inc. Design Completion for D&C approach)
Relocation
Project Completion

All of the procurement activities associated with this Project will be undertaken in line with Council's Procurement policies and procedures and relevant legislative requirements. All tenders will be publically advertised and reported to Council in line with the relevant legislative requirements.

Prior to undertaking any request for tender process for a particular component of works or services, Council will prepare an evaluation plan.

An indicative Project program is attached as Attachment A - this program has been attached for information purposes only and is subject to further refinement and development.

4. Procurement Objectives

The objective of the procurement process applicable to the Project is to:-

1. Provide an open, transparent and competitive process for the selection of various contractors associated with each stage of the proposed project.

2. Comply with legislative requirements to tender.

3. Obtain value for money resulting from the procurement practices

4. Comply with Council's Procurement Policy

5. Costs estimate

Council engaged Slattery Consulting to prepare a Cost Plan (based on an assumed test fit design) to identify likely costs to undertake the Project (based on the assumption that 350 staff will relocate).

The Cost Plan identified that the budgeted total building cost for the proposed project is $18.093 Million (plus GST and plus IT/AV costs) - noting that this amount is in addition to the $7 million acquisition cost for the Premises.

The Cost Plan does not include allowance for AV/IT equipment. Council estimates that AV/IT equipment for the Single Site Option would be $2,656,336.

The Cost Plan does not make provision for AV/IT equipment costs on the basis that AV/IT costs will be incurred irrespective of whether the single site model or the campus model is ultimately selected and Council has made provision as part of its regular budgeting processes. This will occur as part of the scheduled hardware upgrade cycle.

The Project costs will be re-evaluated by a quantity surveyor once the detailed design of the Project is sufficiently advanced.

6. Financial Considerations

Council has prepared a financing strategy to fund the Project which involves a rationalisation of cash reserves, which in the main are the result of efficiencies in reserve fund holdings as a result of the Council merger; the sale of property assets, and loan funds with loans to be repaid from rental income received from leasing out retained properties surplus to Council's needs as a result of the office centralisation to Biripi Way.

Data and other market analysis on council assets provided by Knight Frank Newcastle informed the preparation of the financing strategy.

It is important to note that the financing strategy proposed is designed to minimise the impact on the current budget utilising Council's Balance Sheet and borrowings funded by lease rental to generate the necessary funds. There is no impact on the road improvement program Council has committed to and Special Rate Variation funds are quarantined to ensure they are expended on road projects.

In summary it is proposed in the Financing Strategy to fund the development of the Biripi Way site through the following means (the detailed Financing Strategy at Attachment A provides detail on the basis of these figures):

Cash Reserves	$7.2 Million
Sale of Property Assets	$4.8 Million
Loans	$8 Million
Total	$20 Million

The Financing Strategy is based on a total project cost of $20 Million. While the project estimate in the cost plan is $18 Million and this estimate includes significant contingency provision the financing strategy is based on $20 Million to provide an additional buffer. It is financially prudent to base the

financing strategy on conservative figures. If the costs come in at the estimated $18 Million level loan borrowings would be reduced.

Noting that the initial acquisition cost of $7 million is not included in the above estimate. This amount has been funded from loan borrowings.

RSM Australia have been engaged to undertake a peer review of the Financing Strategy. The results will be reported to Council upon completion of that review.

7. Sourcing Project Team

(The team who will work on this procurement)

Name	Title	Area / BU	Project Role
Adrian Panuccio	General Manager		Project Leader
Steve Embry	Director	Corporate & Business Systems	PCG Chair Corporate Governance
Paul DeSzell	Director	Community Spaces and Services	Asset functionality and usage
Phil Brennan	Manager	Corporate Finance and Planning	Financial Control
Lynn Duffy	Manager	Corporate Strategy and Development	Workplace and corporate strategy/development
Rob Griffiths	Manager	Governance	Governance and risk
Allison Anthony	Acting Manager	Property & Commercial Services	Asset planning and management
Marcelle Boyling	Co-ordinator	Communications and Engagement	Community consultation and internal communications
Russell Wallace	Co-ordinator	Procurement	Procurement
Paula Sciacca	Co-ordinator	Risk & Insurance	Risk & Insurance

8. Evaluation of tenders

Tenders/quotes received will be evaluated against appropriate selection criteria to ensure the achievement of the agreement requirements for each element of this Project.

A separate evaluation & probity plan will be developed for each tender detailing selection criteria, relative weighting, the evaluation process, etc.

The evaluation of significant tenders will be subject to the review by the appointed Probity Adviser to ensure fairness, openness and accountability of decisions made.

Factors that will be taken into account when determining the relevant assessment criteria include ensuring that the tenderers:
- Possess all appropriate environmental and quality management systems, licenses and accreditations - including all relevant ISO accreditations
- Meet all WH&S requirements
- Demonstrate capacity to undertake the Project, including financial capacity

- Demonstrate experience in delivering similar projects - on time and on budget

Each tenderer's price will also be a factor in determining the most attractive tender.

9. Contract Management Arrangements

A Project Control Group will be established as identified in the Probity and Governance Plan that has been prepared for the Project.

The role of this group will include:

- Meet regularly to discuss all relevant matters associated with the Project - all meetings to have an agenda, circulate minutes and record all correspondence in Councils records management system.
- Monitor all contract variations and requests for information (RFI's).
- Monitor progress payments
- Ensure communication to all relevant stakeholders
- Monitor, review WH&S matters arising
- Monitor project delivery
- Monitor project budget
- Ensure all relevant approvals are obtained
- Design matters
- Contractual issues
- Procurement matters
- Any other matter arising in respect of the project.

10. Stakeholder Analysis

Name/Title	Communication Required
Senior management (MANEX)	Regular progress reports
Council	Regular progress reports
Risk & Insurance Co-ordinator	Risk assessment; Insurance requirements.
Other Council staff	Project Control Group Meetings Budget/cost control
Contractors	Project Control Meetings
Office of Local Government	Capital Expenditure Reporting requirements
Community	Regular community updates - various media, website as determined by community engagement officer.

11. Project documentation

This plan should be read in conjunction with the following other project documentation that has been prepared for this Project including:

- Risk Management Plan

- Probity and Governance Plan
- Business/Management Project Plan

Attachment L: MCC Workplace Culture Briefing Note (Feb 2018)

Attachment L: MCC Workplace Culture Briefing Note (Feb 2018)

Workplace culture

› What's the impact
› What's being done to address culture

Purpose of this Briefing Paper

Research indicates that a defensive culture (both passive and aggressive) has a significant impact on an organisation's performance.

This briefing paper quantifies the defensive culture currently at MidCoast Council, its potential financial impact on the organisation (the 'cost' of culture) and steps being undertaken to create a more constructive environment and culture.

Understanding Culture at MidCoast Council

What is culture?

In the context of this briefing note, culture is like the personality of the organisation. It is:

- "The way we do things around here"
- A guide to how we do our work and interact with each other
- The shared mission, values, norms of the organisation
- How staff are expected and encouraged to behave

It's an 'all of us' thing as it touches and impacts all employees, at all levels in the organisation.

Local government culture is historically both passive aggressive and defensive aggressive which has been shown to be the least effective workplace culture.

The impact of culture in mergers

When companies and organisations merge, much of the discussion is around benefits and efficiencies that will be achieved. However there is rarely discussion on how well the cultures of the combined entities mesh. This is likely due to the reality that combining cultures is challenging and therefore generally not addressed by organisations as part of merger integration. The lack of attention to culture has been proven to result in extremely negative consequences for many businesses. A number of major mergers are used as examples in research that looks at mergers that have failed due to culture clash: New York Central and Pennsylvania Railroad; Daimler/Chrysler; Novell/WordPerfect; AOL/Time Warner; Sprint/Nextel; and HP/Compact. This highlights the importance of focusing on culture as part of integration and the link between culture and ultimate value of the merger to stakeholders.

What has impacted on MidCoast Council's culture as a new entity?

Four key organisational change events have occurred to the employees of MidCoast Council, all which have impacted the natural balance of workplace culture:

- A three-way merger of the former Greater Taree City, Great Lakes and Gloucester Shire Councils.

- Dissolution of MidCoast Water and integration into MidCoast Council just over a year after the three-way merger.

- Multiple office locations with team members dispersed over a large area in separate locations. The challenge of distance and multiple offices in Forster and Taree is having a negative impact on productivity, morale and cohesiveness.

- Frustration with and lack of effectiveness of legacy work place environment and misaligned systems as a result of the continuing situation of multiple offices, systems, processes and procedures.

The events above have contributed to a defensive culture at MidCoast Council.

What evidence is there of the current and preferred culture at MidCoast Council?

Since the time of the merger in 2016 MidCoast Council has undertaken two staff culture surveys to measure and report on workplace culture using surveys and tools from Human Synergistics International. A survey[1] completed in August 2017 demonstrates a defensive workplace culture with the primary styles being Passive / Defensive culture styles (highlighted by the green area in the "Current" chart[2] below), followed by a high level of Aggressive / Defensive culture (highlighted by the red area in the "Current" chart below).

These two styles are the least value adding for customers, stakeholders and staff of MidCoast Council. They are also the most prevalent styles across the Local Government sector. A comparison of Local Government culture and MidCoast Council current culture is shown below. Generally, organisations aim to have a culture with the red and green defensive styles within the 50% circle (the dark concentric circle on the circumplex), and blue constructive styles extended outside the 50% circle.

Importantly, MidCoast Council employees have expressed a strong desire to have a constructive culture (illustrated by the large area of blue in the "Preferred" chart following). One of the most significant factors in achieving a shift in culture from the current to the preferred is the awareness of the Board (i.e. Council) and the Executive team on their impact on the organisation's culture through support and role modelling of constructive behaviours.
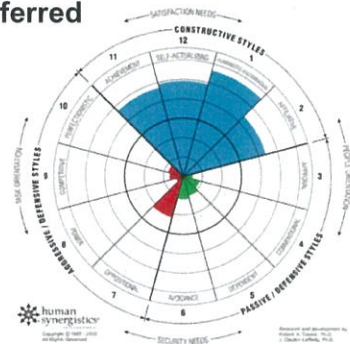
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[1] More information on a comparison of the 2016 & 2017 survey can be found in Appendix 2 of this briefing.
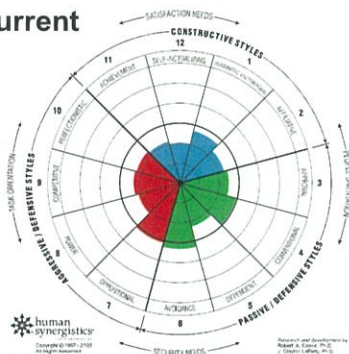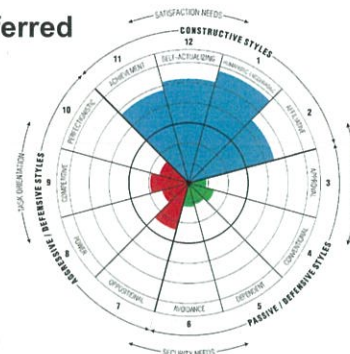[2] The culture results are charted on a 'circumplex', and the definition of how they work can be found here: http://www.human-synergistics.com.au/about-us/the-circumplex.

MCC Current
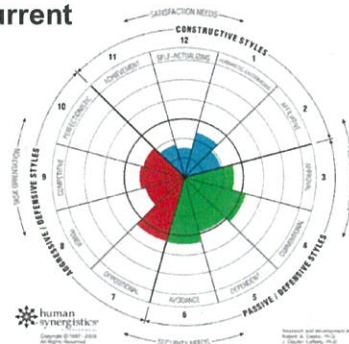
MCC Preferred

Local Gov Current

Local Gov Preferred

Financial and Non-Financial Impacts of Culture

The cost of a defensive workplace culture

A defensive workplace culture can have a significant impact on the productivity and effectiveness of a workforce.

Data compiled by Matrix Leadership Networks in association with SAI Global and Human Synergistics Australia measures the costs of a defensive or negative culture in these four areas as a percentage of overall payroll. The following results were observed.

- *Staff turnover**- Negative culture leads to increased staff turnover, costing between 13.8% to 27.7% of total payroll.

- *Rework* - In a negative cultural environment, 53% of workers can waste up to 10% of time on mistakes; having a negative impact on payroll of between 1.35% and 5.3% of total payroll

- *Effort* - In a negative culture the average worker wastes 2.09 hours per 8 hour day (not including breaks). At the dramatic end this can cost between 13% and 26% of payroll.

- *Stress* - In a negative culture the average worker losses 3.2 working days as a result of stress. At the dramatic end this can cost between 1.2% and 1.4% of payroll.

When the above figures are applied to a combined payroll of MidCoast Council and MidCoast Water in 2016/17 of $53.8 million, conservatively, $15.7m could be lost in productivity annually at MidCoast Council if a defensive or negative culture prevails.

Issue	Dramatic Impact	Conservative Impact
Staff Turnover	27.7% ($14.9m)	13.8% ($7.4m)
Rework	5.3% ($2.9m)	1.35% ($0.7m)
Wasted Time	26% ($14.0m)	13% ($7.0m)
Stress	1.4% ($0.8m)	1.2% ($0.6m)
TOTAL	**60.4% ($32.6m)**	**29.3% ($15.7m)**

The benefits of a positive workplace culture

A positive or constructive cultural environment can have a positive impact on an organisation's bottom-line.

There have been several case studies demonstrating improvement in culture increases profit, productivity, attraction of quality staff, and an increase in returns on capital.

An example of this is the improvement of the Lion Nathan company performance. Since the late 1990's Lion Nathan began an organisational focus on enhancing their culture. The growth of a positive culture was measured over time against the share price of the company.

Defensive culture was measured using the widely recognised Human Synergistics Organisational Culture Inventory instrument. As the constructive culture styles increased significantly an average of 33.5%, Lion Nathan's share price increased every year from 1999-2004, more than doubling from $3.58 to $7.58 - a 12.8% annual increase.

A similar story followed with regard to Lion Nathan's return on capital employed. In a nine year study of Lion Nathan's improved workplace culture, Return on Capital Employed increased by 62%.

Note: blue colour represents constructive cultural styles (which increase over time), whilst red represents aggressive-defensive styles and green passive-defensive styles (which both decrease over time).

WHEN WE LOOK AT RETURN ON CAPITAL EMPLOYED THE STORY IS THE SAME

LN Return on Capital Employed (ROCE)
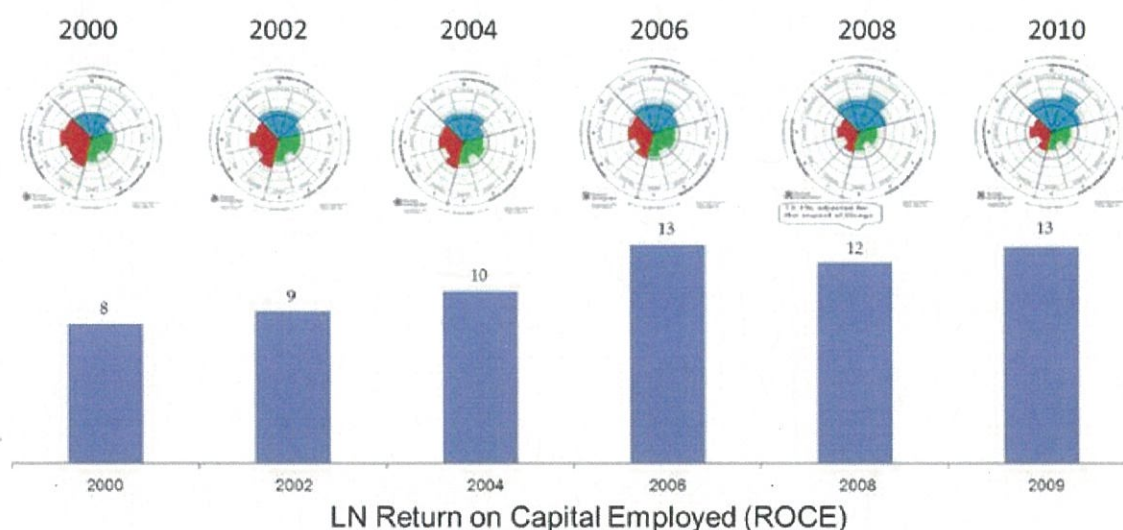
Research also indicates a positive relationship between constructive cultures and other non-financial measures of performance. In organisations with constructive cultural norms you will find:

- Staff commitment and motivation
- Teamwork and cooperation
- Organisational adaptability
- Customer satisfaction

These positive outcomes are likely to translate into better financial performance.

(*Human Synergistics White Paper 'Translating Soft Changes into Hard Dollars'*)

As MidCoast Council focuses on shifting the organisational culture towards the espoused preferred constructive culture, the above factors will continue to impede this shift. Stable organisations find shifting culture to be challenging and a journey that takes time. Combine that with the existing complexity at MidCoast Council and the journey will be longer, more difficult and take more time to provide benefit to customers and other stakeholders.

Steps MidCoast Council are Taking to Improve Culture

Identifying, measuring and reporting on Culture

As discussed in detail earlier in this briefing paper, MidCoast Council utilise Human Synergistics culture reporting and measuring tools. Human Synergistics is globally recognised for impacting on performance and culture at an individual, group and organisational level. They are respected thought leaders academically (for research, publication and teaching).

The survey is used as a starting point for discussions with staff on what can be done to address change and shift the culture towards the preferred constructive (blue) styles.

What is being done to shift the culture?

Workshops and discussions have been held with the senior executive team and broader management team about key focus areas for the organisation, teams and culture action planning based on the data from the survey.

Efforts in this area are significantly impacted by the current dispersed nature of teams across the organisation. In addition, each of the four sites has an existing culture - and shifting that culture towards the staff's preferred culture as one organisation is extremely challenging.

MidCoast Council is advantaged by having the support and recognition of the senior executive team of the importance of culture as MidCoast Council develops as one entity. This is crucial in the journey of cultural integration and change. In contrast, a survey of 130 business executives undertaken by Pritchett (a US based consultant on merger integration and change management) found that 60% of companies subject to merger or acquisition have no formal program for culture integration or change.

What else is Council doing

Council takes an integrated approach to culture and development of staff. A Corporate Development Program is being deployed which focusses on four integrated areas of Mindset, Behaviours and Skills, Relationships, Partnerships and Culture and lastly Processes, Systems and Results. The development program places emphasis on the senior executive and management team initially. A *Developing Future Leaders* program has also been successfully launched for staff at other levels in the organisation.

Taking Civic Leadership - Council's Operational Plan

Council's current 2017/18 Operational Plan incorporates a plan for the delivery of Civic Leadership for its community through:

- *Objective 12* - Develop and maintain sound organisational health through leadership, staff, and culture that contributes to Council's success and a positive customer-centric culture.
  - o *Strategy 12.1* - Develop an organisational culture that focuses on the delivery of quality outcomes while providing job satisfaction.
  - o *Strategy 12.2* - Implement an integrated program that focuses on the continuing development of leadership capability throughout the organisation.
  - o *Strategy 12.3* - Support a strong diverse leadership and a culture that values performance and adaptability.
  - o *Strategy 12.4* - Develop and maintain a skilled, motivated and accountable workforce.
  - o *Strategy 12.5* - Provide good governance.

Centralised head office & communication

Council are now investigating co-locating the majority of back office staff from the four offices in Taree and Forster, into a single location in Taree. (Some customer facing staff and services such as MidCoast Assist would remain on site in Forster to address community accessibility.)

A centralised head office offers the following internal and customer value creation benefits:

- Allows both formal and informal interaction within and importantly between teams
- Team members always at hand for coordination, problem-solving and learning
- Questions answered quickly
- Problems fixed on the spot
- Less friction between interactions
- Trust is gained and awarded much more quickly
- More streamlined and faster decision making with key stakeholders involvement

A study undertaken by Massachusetts Institute of Technology (MIT)'s Human Dynamics Laboratory on the impacts of co-location (and other factors) on team building, observed the following:

> *"We equipped all members of those teams* [successful teams in an organisation v unsuccessful teams] *with electronic badges that collected data on their individual communication behaviour - tone of voice, body language, whom they talked to and how much, and more.* **With remarkable consistency, the data confirmed that communication indeed plays a critical role in building successful teams. In fact, we've found patterns of communication to be the most important predictor of a team's success. Not only that, but they are as significant as all the other factors - individual intelligence, personality, skill, and the substance of the discussion - combined"**.

The same study also observed the following:

*"**The most valuable form of communication is face-to-face.** The next most valuable is by phone or videoconference, but with a caveat: Those technologies become less effective as more people participate in the call or conference. The least valuable forms of communication are e-mail and texting".*

The factors cited above are crucial to the creation of a new, integrated, constructive workforce culture at MidCoast Council. The move to a centralised head office will complement pro-active cultural work that has been undertaken by the Council since the merger. It will also significantly ameliorate the risks of falling into a negative culture, and the associated impact on desired outcomes and workforce costs.

Conclusion

As a result of a complex mix of external factors impacting MidCoast Council, there is irrefutable evidence that the current staff culture is defensive which provides the least value to customers, stakeholders and to staff. If actions are not taken to shift this culture as desired by staff there is a potential annual loss in productivity of at least $15.7m or 29% of payroll.

MidCoast Council is being proactive in its actions to shift culture and develop its people, which in turn will have positive impacts for customers, stakeholders and staff.

However the efforts to make this shift towards a constructive culture will continue to be hampered by the existing dispersity of teams. A move to a centralised head office is one of the most significant actions that can be taken at this stage to support the culture shift and Council's integrated approach to developing its people.

Culture survey results - 2016 & 2017

Background

MidCoast Council has undertaken two organisation wide culture surveys since May 2016 (August 2016 and August 2017). The 2016 survey took place three months post-merger to provide baseline data on the current and preferred culture for the new organisation.

Council utilises culture tools and instruments from Human Synergistics Australia to measure and report on the culture.

The results are charted on a circumplex, with 12 cultural norms/behaviours indicated. The 'clusters' of these behaviours can be classified as follows:

- Constructive styles (blue): self-actualising, humanistic-encouraging, affiliative
- Passive defensive styles (green): approval, conventional, dependent, avoidance
- Aggressive defensive styles (red): oppositional, power, competitive, perfectionistic

The more colour in a particular style, indicates the prevalence of that behaviour as part of the organisation's cultural norms.

Results are shown for the current culture of the organisation as well as the preferred culture, from the staff's perspective. The majority of organisations find that staff prefer to maximise the blue, minimise the green and manage the red styles.
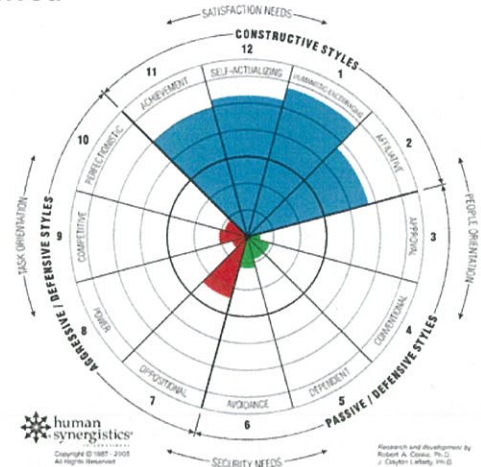
A comparison of the 2016 and 2017 results show that the current culture has become less constructive and more defensive over the year. The preferred culture remains consistent.
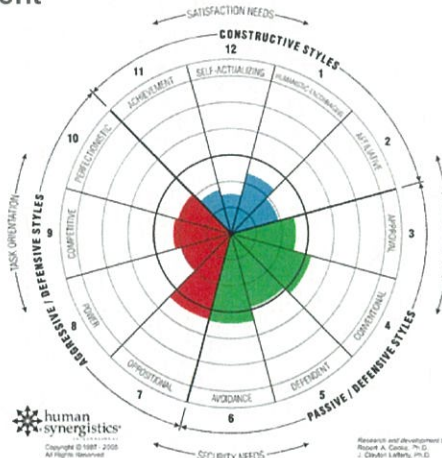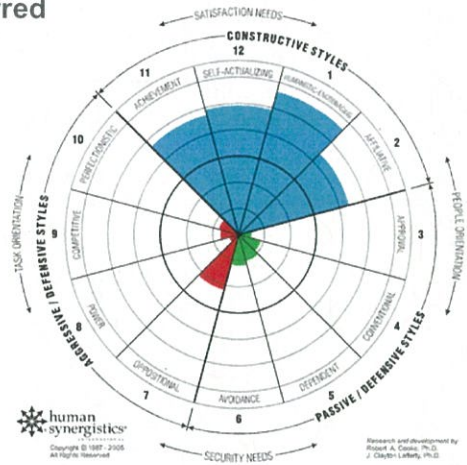
2016 & 2017 results

2016 Current
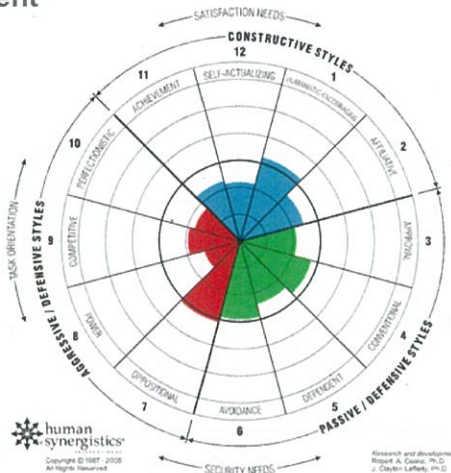
2016 Preferred

2017 Current

2017 Preferred

Key points

- The 2016 results indicate a primary constructive style of 'Humanistic-Encouraging' (or coaching), where staff are expected to be supportive, constructive and open to others' input.

- The results show secondary styles that are aggressive defensive ('Oppositional') and passive defensive ('Avoidance'). With the 'Oppositional' style staff feel that they are expected to gain status and influence by being critical and constantly challenging each other. While with 'Avoidance' staff feel that they are expected to shift responsibilities to others and avoid being blamed for mistakes.

- The passive defensive and aggressive defensive styles add the least value to customers and stakeholders. They tend to provide a sense of security for staff, which is relevant in the context of a newly merged organisation. These security needs are directly opposite to satisfaction and achievement where staff gain satisfaction from getting the job done effectively and efficiently.

- In contrast, the 2017 results indicate primary defensive styles of 'Oppositional', 'Avoidance' and 'Conventional'. 'Oppositional' and 'Avoidance' are described above. 'Conventional' is where staff feel that they are expected to conform, follow the rules and make a good impression.

- The secondary style is also passive defensive, 'Approval'. This style indicates that staff are expected to agree with, gain the approval of, and be liked by others.

- Significantly, the culture survey re-measure of 2017 indicates a current culture with significant decrease in the constructive (blue) styles in comparison to growth in the defensive (green and red) styles.

The table below provides an indication of this shift in behaviours by a percentage. The Human Synergistics circumplex provides survey results that are normed against hundreds of thousands of others that they use as a 'norming base'. The concentric circles on the circumplex provide the percentiles for the norming. On average, MidCoast Council's results indicate an average decrease in constructive styles of 13% from 2016 to 2017.

Constructive styles	2016 survey	2017 survey	Change
Achievement	30%	20%	-10%
Self-actualising	27%	17%	-10%
Humanistic-encouraging	55%	35%	-20%
Affiliative	35%	23%	-12%

Conclusion

The comparative culture survey results from 2016 to 2017 support the proposal to move to a centralised head office. The move to a central site is a critical factor in minimising the risk of an ongoing defensive workplace culture and the subsequent impact on productivity and effectiveness of the workforce.

The research discussed in the Briefing Paper supports the fact that there are significant gains to be realised for customers, stakeholders and staff from developing a constructive culture at MidCoast Council.