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Partnerships Victoria Metropolitan Mobile Radio Contract Extension

Project summary
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Working in conjunction
with Communities,
Government, Agencies
and Business



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Foreword

This Project Summary provides information about the commercial and contractual aspects of the Metropolitan Mobile Radio Contract Extension Project (the Project) and is divided into two parts. The first part is an overview of the Project, including the rationale for undertaking it, a summary of the procurement process and the value-for-money assessment. The second part details the key commercial features of the Project, including the main parties and their general obligations, and the new capabilities being introduced as part of the contract extension.

This Project involved negotiations with the incumbent radio communications service owner and operator for an extension of the current Metropolitan Mobile Radio Services Agreement (MMRSA). In doing so, the State of Victoria (the State) has sought to maintain the terms of the existing contract, including the risk allocation, except for where the opportunity for improvements for the extension term were identified.

Partnerships Victoria forms part of the Victorian Government's strategy for providing better services to all Victorians by expanding and improving Victoria's public infrastructure and service delivery. The Partnerships Victoria framework applies to the provision of public infrastructure and related services using private sector expertise to design, finance, build, operate and maintain infrastructure projects. The framework consists of the National Public Private Partnerships Policy and Guidelines and Partnerships Victoria Requirements. Further information on the Partnerships Victoria framework is available at <http://www.dtf.vic.gov.au>.

This summary should not be relied upon to completely describe the rights and obligations in respect of the Project, which are governed by the Extension Contract and associated documents. The Extension Contract and associated documents are available online at www.tenders.vic.gov.au.

1.0 Project overview

1.1 Metropolitan Mobile Radio Contract Extension Project

The MMR service

The MMRSA was executed on 15 March 2004 with Motorola Solutions Australia Pty Ltd (Motorola) as a Partnerships Victoria project. Motorola had, through a competitive process, been selected to design, build, finance and maintain the MMR network, including the provision, installation and support of all radio terminals.

The Metropolitan Mobile Radio (MMR) network is a dedicated emergency services Project 25 (P25) digital radio network providing mission-critical digital voice services across metropolitan Melbourne and Geelong (MMR Service Area). The network is used by Victoria Police¹ (VicPol), the Metropolitan Fire and Emergency Services Board (MFB), Ambulance Victoria² (AV) and the Emergency Services Telecommunications Authority (ESTA) (together, the MMR Customers).

The initial implementation of MMR placed Melbourne's emergency services at the leading edge of emergency communications, providing its users with:

- complete security of communications through digital encryption facilities;
- digital voice transmission to improve voice quality so that communication in an emergency response situation is clear and unambiguous;
- improved outdoor and indoor network coverage across the MMR Service Area, including in buildings, tunnels, shopping centres and basement carparks;
- sufficient channel capacity and flexibility to manage call volumes and security and emergency response to major events;
- interoperability between emergency service organisations and common co-ordination channels to support a multi-agency response to major incidents; and
- improved overall safety of both emergency service staff and the community.

The MMR network provides a contemporary and effective communications platform that enables emergency service personnel to maintain service delivery to the standard expected by the Victorian community from professional emergency services.

The MMR network enhances the service delivery of emergency service personnel and the safety of the public. These benefits are of crucial importance in a global environment of heightened security risks. The MMR network is an effective tool to improve proactive and reactive policing, fire, ambulance and other emergency activities.

In addition to the MMR network service provision, Motorola supplies and maintains in excess of 10,000 radio terminals utilised by VicPol, MFB and AV on the MMR network³.

MMR provides a highly resilient network architecture for full redundancy in the event of a network core or site failure. The network features remote transmitter sites providing a highly reliable and measurable level of handset and vehicle-based radio coverage to land, sea and aircraft across the Melbourne metropolitan region, Geelong and surrounding areas. This ensures a consistently high level of communication with and between staff in the field.

MMR Service Agreement Extension

The MMRSA term was originally for seven years from the date on which the State accepted the MMR network, plus a two-year option for the State to extend. The MMRSA was extended by agreement in 2012 for four years and an additional two one-year extension options were introduced. Those two extension options were exercised, extending the MMRSA to July 2018.

At the same time as the MMRSA was extended in 2012, the State and Motorola entered into a transition agreement to replace and expand on the provisions in the MMRSA that had addressed transition out on termination or expiry of the MMRSA (Transition Agreement).

¹ Only Victoria Police units based in Metropolitan Melbourne and Geelong have dedicated customer use of MMR. Victoria Police units based outside of Melbourne and Geelong primarily use the regional mobile radio network (RMR), however may roam onto the MMR network with dual band terminals and subject to approved network access.

² Only AV units based in Metropolitan Melbourne have dedicated customer use of MMR. AV units based outside of Melbourne currently use a different system.

³ ESOs may also introduce their own radio devices onto the MMR network subject to approved network access.

In early 2016, the Project was established by the Emergency Management Operational Communications (EMOC) Program within Emergency Management Victoria (EMV) to ensure continuity of the mission critical metropolitan radio service for VicPol, AV and MFB beyond July 2018.

A market consultation exercise undertaken in mid-2016 as part of the EMOC Program, to investigate emerging public safety broadband communications including Mission Critical Push to Talk (MCPTT) technology, revealed that Land Mobile Radio networks (such as MMR) will need to remain until at least 2025. This reflected a realistic timeframe within which the standards, technology and commercial carrier arrangements may have evolved sufficiently to consider future transition to public safety broadband communications for public safety use.

Following these conclusions, EMV conducted an options analysis to determine the preferred procurement and service delivery approach to ensure continuity of MMR services. The analysis confirmed that the option likely to deliver the best value for money to the State was a sole source contract extension of the MMRSA with Motorola until at least 2025.

As such, negotiations with Motorola occurred during 2016/17, resulting in the MMRSA being extended for a further seven years (to 2025), with an option for one or more further extensions up to five years in total (Extension Contract). Compared to the previous terms of the MMRSA, the Extension Contract provides for improved commercial arrangements, provision of new functionality, services and related performance measures, ongoing network infrastructure lifecycle refresh, and a complete refresh of the radio terminal fleet for VicPol, MFB and AV. It also formalises the introduction of new MMR Customers, including Victoria State Emergency Service, Corrections Victoria and Life Saving Victoria. These agencies will be transitioning onto the MMR network in 2018 and using their own radio terminals procured via the State's Managed Device Service (MDS) agreement.

This document summarises the commercial terms and enhancements provided under the Extension Contract.

Project objectives

The following objectives were established at the outset of the MMRSA extension negotiation process:

- ensure continuity of service for existing key customer agencies (including no degradation of services (including performance) to below contracted standards)
- ensure adequate consideration is also given to the introduction of new State-introduced customers (where viable)
- cap and minimise expenditure on the existing MMR service, including assurance that value for money is achieved on service payments for MMR operation
- explore wider opportunities to improve the overall value-for-money outcome of the MMRSA
- ensure any capital investments required are within the current funding envelope, prioritised to (1) maintain contracted service standards and (2) account for growth in service demand and/or enhanced capability, on the condition that investment:
 - negotiation decisions are supported by sound quantitative and qualitative evidence
 - aligns with the EMOC Program roadmap, and is therefore assessed relative to an intended subsequent replacement network
 - negotiation decisions are within the Partnerships Victoria guidelines (or as agreed with the Department of Treasury and Finance (DTF)) for value for money asset utilisation
- enable an extended contractual term with maximum commercial and technical flexibility (to support transition of services onto an intended replacement statewide network)
- enable, if determined appropriate, the transition of some or all functionality from one service to another by exploiting new capabilities
- support the option, where appropriate, to unbundle service or facility components from the MMR network infrastructure and provision (for example, radio terminals/devices, network infrastructure and network operation and interfaces)
- comply with Australian Communications and Media Authority (ACMA) policy and radio spectrum licensing requirements

- maintain the integrity and probity of the Project throughout discussions
- ensure that the Emergency Services Leadership Group (ESLG) and DTF are satisfied that the position reached through negotiations with Motorola meets the State's requirements, and that a suitable contract to extend the MMRSA can be executed.

A key outcome of the negotiations was to achieve an optimum balance of these objectives, particularly as they relate to service and/or system enhancements versus financial implications, for a finite investment period until such time as a replacement network is available.

1.2 A Partnerships Victoria public private partnership

Since its inception in the early 2000s, the MMR service has been delivered as a Partnerships Victoria project, and has been contracted in accordance with the Victorian Government's guidelines at the time for public private partnership infrastructure projects.

The MMRSA continues as a Partnerships Victoria project for the extension term.

The Partnerships Victoria framework seeks to achieve better value for money by capturing the expertise and efficiencies of the private sector in designing, financing, building and maintaining infrastructure projects and providing services on a whole-of-asset-life basis where appropriate.

The Partnerships Victoria framework required that projects comply with the:

- National Public Private Partnerships Policy and Guidelines that apply across all state, territory and Commonwealth arrangements
- requirements specific to Victoria as detailed in the Partnerships Victoria Requirements (November 2016).

Details of the National Public Private Partnerships Policy and Guidelines and the Partnerships Victoria Requirements are available at <https://infrastructure.gov.au/infrastructure/ngpd/index.aspx> and <http://www.dtf.vic.gov.au>, respectively.

1.3 Procurement process

Procurement options analysis

In 2016, the State assessed a range of procurement and service delivery options to determine the preferred means of procuring the continuity of MMR services until at least 2025. These options were assessed to ensure the best value for money outcome for the State could be achieved. Options included sole source negotiations, open market tender, and statewide network and service considerations given the existence of the Regional Mobile Radio (RMR) network and service.

Key findings

The option for a sole source negotiation with Motorola as the incumbent MMR service provider was identified as the preferred procurement strategy because of the:

- proven experience and service performance of Motorola over the contract term
- likely timing of realisation of benefits and potential impacts on the broader EMOC program
- potential cost and complexity of transition to new providers
- complexity and integration risks of introducing new and potentially multiple commercial arrangements
- anticipated complexity and timeframes of alternative procurement processes
- potential to achieve savings in the current contract by structured and transparent negotiation
- market's capacity and willingness to compete for a continued MMR service.

Sole source negotiation with Motorola was considered best able to achieve the Project's objectives for ongoing provision of MMR network services.

Negotiation Strategy, process and timeline

The State developed a detailed negotiation strategy to ensure that the extension negotiations achieved the State's objectives within approved negotiation parameters (Negotiation Strategy). The Negotiation Strategy outlined the governing principles and approach to the negotiation process and considered how best to optimise value-for-money outcomes.

In late 2016, the ESLG and the Minister for Emergency Services approved:

- the State, through EMV, commencing contract extension negotiations with Motorola for potential continuation of the MMRSA beyond July 2018
- the negotiations being conducted in accordance with the requirements contained in the Request For Quote issued to Motorola as part of the Project (RFQ), prepared and approved in consultation with the MMR Customers and DTF.

The Project was governed by the ESLG and a multi-agency working group, which was established to ensure active and frequent engagement with the MMR Customers (MMR Working Group) and is described further below in section 1.4. EMV continued to consult with DTF and the Office of the Chief Procurement Officer within the Department of Justice and Regulation regarding the procurement process, and also engaged external advisers to provide professional advice on legal, commercial, technical and probity matters. The term sheet requirements for the Project and the Negotiation Strategy were developed and approved by the MMR Working Group.

The RFQ was provided to Motorola for consideration and response in October 2016. The response from Motorola was provided on 22 December 2016, with negotiations commencing in March 2017 following the State's consideration of Motorola's response.

Consistent with the Project's objectives, the fundamental principles represented by the State's RFQ requirements included:

- ensuring continuity of, and no degradation to, the MMR services
- removal of radio terminal provision and related services on the basis that they would instead be procured via the MDS agreement (which, at the time of RFQ release, was close to contract execution)
- improvements in system functionality, where available, particularly in narrowband data services (ie, duress, location tracking and terminal status)

- network coverage improvements and expansion of MMR Customer service areas within the existing MMR coverage area
- asset lifecycle investment, where required and justified.

The negotiation process sought to ensure the extension requirements and outcomes remained consistent with Partnerships Victoria requirements and the terms and conditions of the existing MMRSA and Transition Agreement.

Although the response from Motorola was largely aligned with the State's requirements, it included an unsolicited proposal to incorporate the provision of a refreshed radio terminal fleet and ongoing terminal support services for the extension term.

The State elected to conduct a separate closed procurement process between the MMR and MDS service providers to determine which of the two contracts offered the best value for money outcome for the State for provision of the refreshed terminal fleet and related services.

This process (the Metropolitan Device Refresh Procurement process) was run in September to November 2017 with the MMR and MDS service providers being invited to respond to the State's terminal requirements. Motorola, via the MMRSA, was selected as the preferred respondent as its response was assessed as offering better value for money.

As a result, terminals and associated services were re-introduced into the MMRSA extension scope, with Motorola's response to the Metropolitan Device Refresh Procurement process used as a baseline for finalising the negotiations.

Negotiations between the State and Motorola concluded in late 2017 with the deed of extension, amendment and restatement of the MMRSA and the Transition Agreement (Deed of Extension) being executed by the parties on 19 December 2017. Whilst the various extension works, services and contractual obligations generally commence effective from 19 December 2017, the reset of the services payments commences from 8 July 2018 (although there may be earlier adjustments to reflect the completion of agreed extension works).

Table 1 sets out the key dates in the negotiation process.

Table 1: Negotiation timeline – key dates

Negotiation phase	Date
State issued RFQ to Motorola	October 2016
Motorola’s response to RFQ received	22 December 2016
State’s assessment of Motorola response (including clarifications)	January to February 2017
Detailed negotiation period	March 2017 to December 2017
Conduct of Metropolitan Device Refresh Procurement Process	September to November 2017
Deed of Extension executed	19 December 2017
Extension Contract commencement	19 December 2017
Reset of services payments under MMRSA	8 July 2018
End of term of MMRSA	7 July 2025 (with optional extensions of up to five years (i.e. up to 7 July 2030))

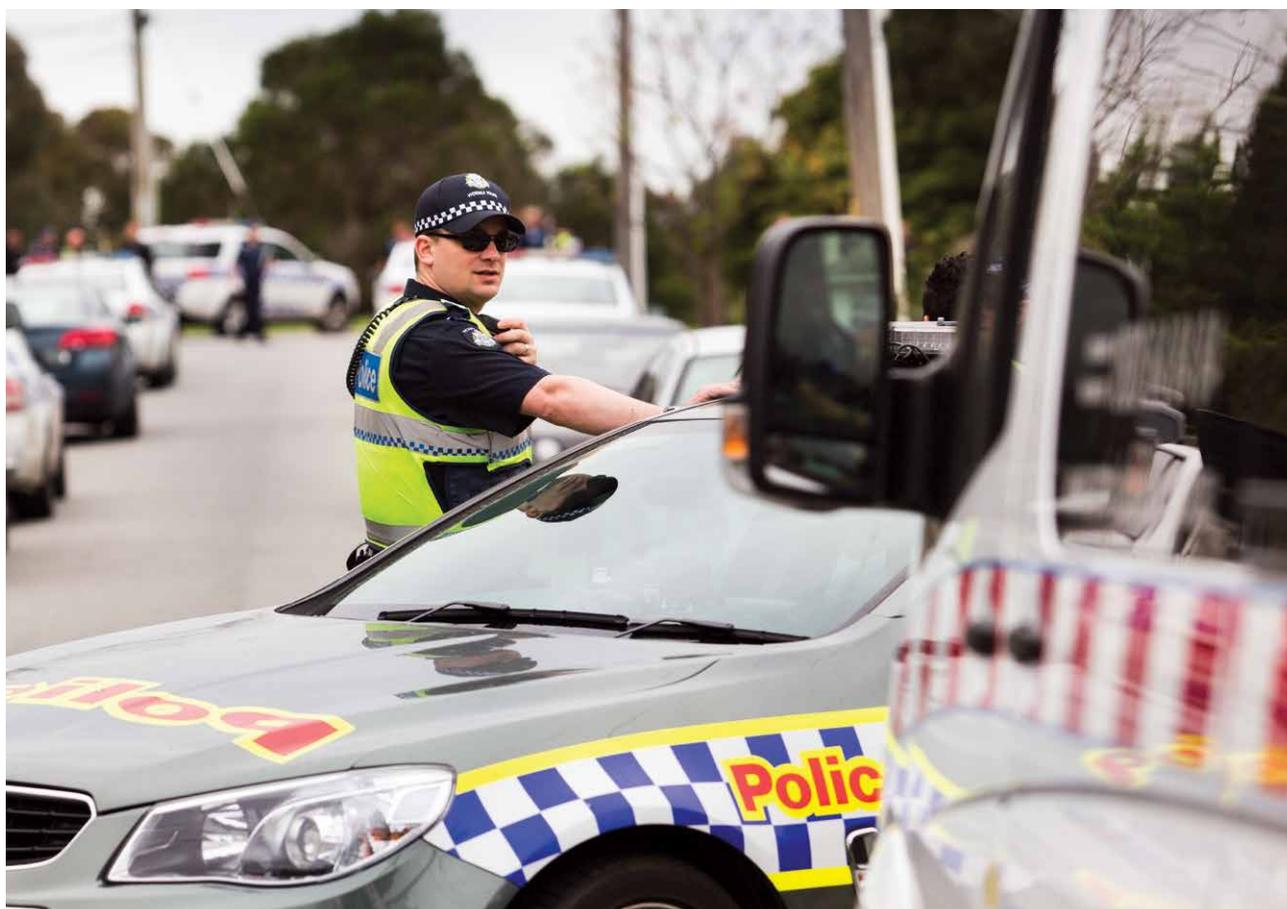


Photo courtesy of Victoria Police

1.4 Governance structure

The State established a formal governance structure to ensure transparency and oversight of the negotiations and to provide timely endorsement of Project phases and outcomes. Appropriately skilled and knowledgeable individuals were appointed as part of the State's negotiations team, the multi-agency MMR Working Group, and other governance forums.

The State appointed an expert lead negotiator to represent the State in the negotiations with Motorola, supported by commercial, legal and technical advisers and ESTA representatives in the State's negotiation team.

In accordance with an agreed terms of reference, the MMR Working Group met on a fortnightly basis

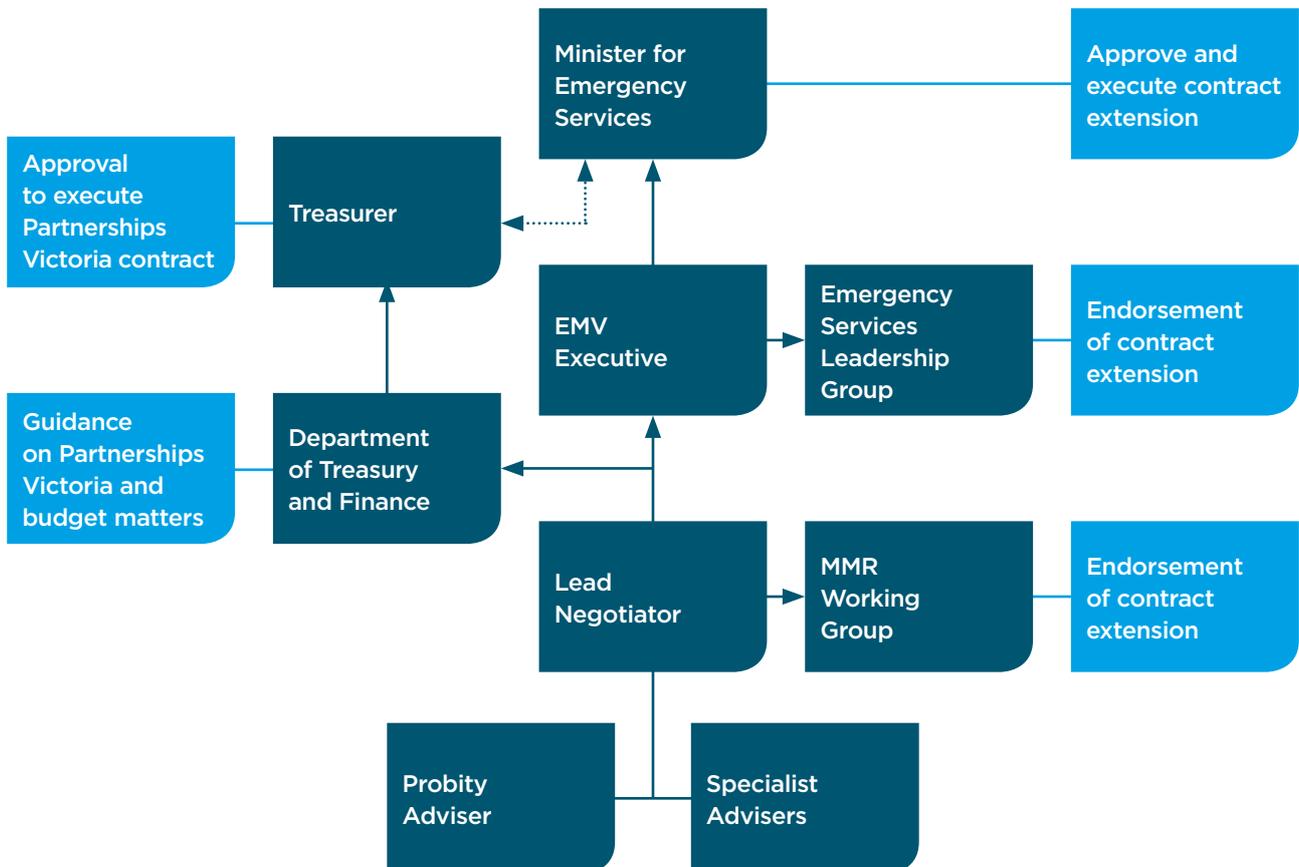
throughout the Project to oversee and guide the negotiations as they progressed. The group included representatives from each of the MMR Customers, EMV and the State's negotiation team.

The ESLG was updated from time to time on progress of the Project and provided endorsement at key decision phases, such as the RFQ and related State's requirements and the negotiation outcome. Senior representatives of the MMR Customers and EMV are represented on the ESLG.

EMV, with the State's lead negotiator, maintained close liaison and support with DTF and other internal departmental business units throughout the Project.

The governance structure is represented in Figure 1, depicting the roles and responsibilities of the forums involved.

Figure 1: Project governance structure



Probity

The negotiation process (including the negotiations as part of the Metropolitan Device Refresh Procurement process) was undertaken within a robust probity framework which was endorsed by the Project's independent Probity Adviser and based on the following principles:

- fairness and impartiality
- consistency and transparency
- security and confidentiality
- identification and resolution of conflicts of interest
- value for money and public interest
- compliance with relevant government policies.

During the Metropolitan Device Refresh Procurement process, any State representatives involved in this process were precluded from any engagement with Motorola in the sole source MMRSA extension negotiations.

At the completion of the sole source negotiation process, the Probity Adviser confirmed that the process had been conducted in accordance with the applicable requirements.

1.5 Negotiated outcome and value for money assessment

Negotiated Outcome

The negotiated outcome for extension of the MMRSA achieved the State's objectives for the extension and represents value for money for the State. The negotiated arrangements are consistent with the State's EMOC Program of ensuring continuity of mission critical digital radio communications until alternative technologies are available for operational consideration.

The negotiations achieved:

- material savings to the operating costs payable by the State to Motorola for the base MMR services
- a fully priced and contracted asset lifecycle program for the MMR network, including greater emphasis on asset management, over the extension term
- a complete 'end of life' replacement of the existing metropolitan radio terminal fleet for VicPol, MFB and AV, including ongoing terminal service support for up to 12 years
- introduction of new customers onto the MMR network, being Victoria State Emergency Service and Corrections Victoria who will use their own radio terminals procured under the State's MDS agreement, and Life Saving Victoria (for radio dispatch consoles only)
- the capability for MMR Customer users with dual band radio terminals to roam between metropolitan and regional communications networks, thereby improving operational effectiveness and reducing the need for additional investment in their radio fleet
- enhanced network capacity utilisation through hardware and software upgrades, thereby minimising the need for additional investment in capacity for the existing emergency service users during the extension term
- long-term contractual arrangements for up to a further 12 years, with appropriate flexibility for the State and emergency service users during the term to facilitate service transition to new technologies and/or asset ownership of the MMR network
- improved contractual security for the State, including reconfirmed parent guarantee, increased performance bond and updated insurance arrangements
- improved capability and functionality of the MMR network as outlined in Table 2. Works required to implement this capability will be delivered via an extension works program that is to be completed progressively by around mid-2019.

Table 2: Summary of new MMR capabilities

Capability	Description
Narrowband data	<p>Enhanced support for the transmission and processing of radio terminal location, duress, status messaging, and text messaging. New functionality being delivered includes the ability to track and manage radio assets, and to encrypt sensitive agency data. A highly available/redundant data interface will also be available for third-party access to location, status, duress, and text messaging.</p> <p>With the introduction of narrowband data services MMR will be better able to deliver mobility functionality that was previously only available through the Mobile Data Network (MDN). The ability to track assets via MMR, activate a duress alarm, or send a status message to ESTA Computer Aided Dispatch (CAD), provides a potential transition pathway from MDN and continues to promote greater value for money through opportunities to consolidate radio networks in accordance with the EMOC program and MMR project objectives.</p>
MMR CAD interface	<p>Mission critical MMR data will be available within the CAD platform via a dedicated MMR CAD interface. This will enable streamlining of CAD communication workflows and enable the ability to pinpoint the location of a radio user in CAD when a duress (emergency) alarm is activated.</p>
Location Management Service	<p>A web portal providing access to a location mapping solution providing State-wide tracking of GPS enabled radios (both terminals supplied under the MMRSA and customer introduced terminals), processing and displaying status changes from radios, and notification of emergency and duress alarm activation.</p>
Customer introduced terminals	<p>The ability will be provided for MMR Customers to procure their own devices (and related device services) for use on the MMR network, including under the MDS agreement. MMR Customers may still procure their terminals via the MMRSA.</p>
Near real-time operational reporting service	<p>Provision of an enhanced near-real-time operational reporting service, accessed via a secure internet web portal, giving MMR Customers the ability to define and generate custom reports. Scheduled/periodic reports can be predefined by the MMR Customers, as can trigger reports that can be generated based on parameters, and post-event reports that can be generated on-request by MMR Customers to provide information relevant to the occurrence of a particular event or incident. An MMR data storage warehouse will also be established to support long term recall of location and other critical data for reporting and evidentiary purposes.</p>
Broadband PTT proof of concept	<p>A 12 month Proof of Concept (PoC) using the Motorola mobile broadband Push-to-Talk (PTT) service on MMR, using a commercial carrier's 3G/4G network and the Motorola WAVE platform and Communicator smartphone app. During the PoC, the PTT service will be fully integrated with MMR, and will support PTT capabilities from commercial handheld mobile devices (iOS and Android). The purpose of this PoC is to allow MMR Customers to familiarise themselves with, and evaluate the technology to inform the State's future strategy for delivery of carrier based PTT services.</p>

Capability	Description
Priority coverage issues addressed	<p>Delivery of solutions to address priority in-building coverage issues, at the following locations:</p> <ul style="list-style-type: none"> • Werribee Mercy hospital • Epworth Health Care • Chirnside Park Shopping Centre • Craigieburn Central Shopping Centre • Victorian Comprehensive Cancer Centre.
AV & MFB service area changes	<p>Expansion of the AV and MFB service area for 'in field' terminal services to include the entire metropolitan MMR service area. This ensures that any expansion of AV and MFB coverage across the MMR service area can be achieved at no incremental operational cost to the State. AV and MFB coverage expansion is subject to the MMRSA modification process, allowing for capacity assessment prior to altering technical access to sites to expand operations.</p>
Over the air terminal programming	<p>A new capability enabling remote reconfiguration of Motorola terminals over the MMR network (i.e. 'over the air'), thereby greatly reducing current agency resource lost time and terminal unavailability otherwise associated with returning terminals to Motorola when terminal reprogramming is required.</p>

1.6 Financial outcome and value for money assessment

Financial Outcome

Table 3 summarises the total nominal and net present cost of the negotiated outcome for the seven year extension term (i.e. the period from 8 July 2018 to 7 July 2025).

Table 3: Disclosure of total nominal cashflows and net present cost (excl GST)

Sum of nominal cashflows over the 7 year Extension Contract (\$m)	Net present cost of the negotiated outcome as at FY2017/18 (\$m)	Discount rate used to arrive at net present cost (% nominal)
261	211	5.5%

Notes:

- The negotiated outcome (both nominal and net present cost) includes all operating costs, asset maintenance and lifecycle costs over the seven year extension term. It also includes the capital cost of the terminal replacement program and agreed network enhancements the cost of which is amortised over the term and included in the MMR service payments.
- The sum of nominal cashflows over the seven year extension term has been calculated by applying the forecast contracted indexation parameters to the applicable costs in the Extension Contract.
- The net present cost represents the cost of the Extension Contract to the State in FY2017/18 dollars, discounted at a nominal rate of 5.5 per cent, calculated in accordance with Partnerships Victoria Guidelines. This is accepted as the most financially robust and appropriate method of measuring costs of long-term projects.

Value for money assessment

Given the procurement approach of conducting a sole-source negotiation, the State undertook a number of validation processes to ensure that the negotiated outcome (operational model, service levels, enhancements, risk allocation, commercial regimes and pricing) provided value for money and met the State's affordability criteria. These included:

- an open book process whereby nominated State representatives (including commercial advisers) were given access to information necessary to assess the reasonableness of pricing, including margins, costs, third party subcontracts, site leases, and underlying operational assumptions
- assessment and benchmarking of pricing parameters, including margins and costs
- progressive and conclusive legal assessment of the negotiated risk allocation compared with existing contractual arrangements, other similar contracts and the Partnerships Victoria framework
- utilisation of commercial and technical advisers to validate and assist negotiation of asset investment proposals, assumptions and pricing
- assessment of operational and commercial pricing assumptions against the State's own benchmark estimates, including an overall negotiation outcome estimate prepared prior to receiving Motorola's response to the State's extension requirements contained in the RFQ (see details below).

In addition to the above, the Metropolitan Device Refresh Procurement process provided a competitive environment for pricing and broader offering of the MMR Customers' radio terminal refresh and associated transition activities, as well as ongoing terminal service support. Proposals received from the MMR and MDS service providers in this process were separately assessed from the sole source negotiation process to select the provider that offered the best overall value for money.

Whilst Partnerships Victoria Guidelines refer to preparation of a Public Sector Comparator (PSC) to support the State's value for money assessment in a competitive procurement process, it was agreed with DTF that the nature of this Project, being a sole source negotiation for the provision of services such as those provided under the MMRSA, would be best

served by preparation of a 'negotiation outcome estimate'. The pre-existing MMRSA commercial arrangements were used as the baseline for adjustment. This estimate was used by the State as a reference during the negotiations and to assist the final value for money assessment of the negotiated outcome.

The State's negotiation estimate was prepared by the State's project commercial advisers in consultation with the State's project technical advisers and nominated internal State representatives.

The negotiation estimate sought to reflect the State's extension requirements as reflected in the RFQ. It reflected the State's estimated projections of costs that it could potentially incur for the negotiated outcome of such requirements (including enhancements), and was based on the reasonably known information available at the time of it being prepared.

The State's negotiation estimate was prepared in advance of receipt in December 2016 of Motorola's response to the State's extension requirements set out in the RFQ. This estimate was not shared with Motorola during the negotiations.

For comparative purposes, the State's negotiation estimate was adjusted to reflect the scope and parameters of the negotiated outcome. This included adjustments for changes in scope (in and out) during the negotiations and as better information became available to the State to inform its estimates during the negotiation process. This ensured the State's estimate remained current and useful for comparative purposes to inform the negotiations and when conducting its value for money assessment.

Consistent with the State's initial RFQ, which excluded terminals from scope, the negotiation estimate did not include estimated costs for the radio terminal refresh. For comparative purposes, the Net Present Cost of the contracted capital costs associated with the radio terminal refresh have been added to the State's original negotiation estimate, to ensure a like-for-like comparison and meaningful representation of the estimated Net Present Value of savings achieved.

Table 4 compares the negotiated outcome for the seven year extension term with the State's negotiation estimate.

Table 4: Comparison of the negotiated outcome to the State's negotiation estimate (FY2017/18)

Net Present Cost of negotiation outcome (\$m)	Net Present Cost of negotiation estimate (\$m)	Net Present Value of estimated savings (\$m)	Discount Rate (%)
211	287	(76)	5.5%

The following benefits of the MMRSA extension arrangements (including the outcome of the Metropolitan Device Refresh Procurement process) are highlighted from a value for money perspective:

- securing continuity and certainty of communication services for the State and MMR Customers
- the material financial savings and favourable commercial risk allocation achieved for the extension term, including asset lifecycle services and radio terminal support, are considered to provide the State better value for money relative to the existing service, and relative to the State's negotiation estimate
- the competitive Metropolitan Device Refresh Procurement process resulted in significant savings for the State on terminal refresh costs, particularly in terms of transition activities, ongoing terminal service support, and introduction of a new station based terminal support service for VicPol
- material reductions in network access fees for growth in MMR terminal users over the extension term, including for third party terminals that may be used by MMR Customers on the MMR network, thereby providing the opportunity to realise further savings during the term
- an asset lifecycle and replacement program to ensure the MMR network continues to perform at its high contracted standards over the extension term. Motorola bears the risk of scope, timing and cost of all such works and all asset performance, residual life and condition risk of the MMR network throughout the extension term (subject to adjustment for any optional further extensions, which is discussed further below)
- network reporting system enhancements to be provided with related service performance arrangements
- the service performance measurement regime has been maintained and further improved with the introduction of new measures for new services
- the modification payment principles have been improved with greater emphasis on transparency of margins, costs and supporting information
- the negotiated outcome is considered operationally and commercially sustainable for the extension term
- certainty of contractual service payments for provision of MMR services for up to 12 years.

2.0 Key commercial features

2.1 Project documents

On 19 December 2017, the Minister for Emergency Services, on behalf of the State, executed the Deed of Extension and other associated documents with Motorola, which provides for an extension of the term over which Motorola is contracted to operate and maintain the MMR network and provide services to the MMR Customers.

In accordance with Victorian Government policy, the executed Deed of Extension and associated documents are publicly disclosed and available at <http://www.tenders.vic.gov.au>.

2.2 Parties to the Extension Contract and associated documents

The relevant parties under the contractual arrangements are:

- The State is a signatory to the Deed of Extension. The Minister for Emergency Services is the person empowered to execute this document on behalf of the State
- Motorola, as the contractor under the MMRSA, is the counterparty to the Deed of Extension
- Motorola Solutions Inc, as Motorola's parent company, signed a new parent guarantee, and is also a party to the Deed of Extension in order to consent to the extension and amendment of the MMRSA
- Motorola contracts with six strategic key subcontractors for specific MMR services.

2.3 Risk transfer

In Partnerships Victoria projects, the State seeks to achieve the best value for money by allocating risks to the party best able to manage them. This process results in various risks being:

- retained by the State
- transferred to the private sector, and/or
- shared between the parties.

The risk allocation in the Extension Contract is consistent with the Partnerships Victoria framework. There has been no material change to the level of risk retained by the State under the Extension Contract, when compared to the level of risk retained by the State under the MMRSA and the Transition Agreement prior to the extension. The Extension Contract and associated documents establish the obligations of each party in managing these risks.

Table 5 provides a high-level outline of the risk allocation for the Project. Where a risk is allocated to both parties, the parties may not share that allocation equally. All risks are dealt with in the Extension Contract and associated documents.

Table 5: Risk Summary – MMR contract extension

Risk category	Description or comment	State	Motorola
Site risks			
Procurement of and access to sites	Risk of procurement of sites required to deliver the MMR services, and ability to access those sites as required.	✓ (Only in relation to access to sites owned by the State that are subject of native title claims)	✓
Site conditions	Risk of contamination at sites used to deliver the MMR services or other matters affecting the site conditions.		✓
Site lease costs	Rent, power and any other costs payable under leases and licences of sites that are used to deliver the MMR services.	✓ (Only in respect of leases that contain specified market rent review provisions)	✓
Rates	Payment of rates and land taxes in respect of the sites (if applicable).		✓
Operational risks			
Performance standards	Services provided do not meet State's specified performance standards.	✓ (Only to the extent that the deficiency is due to non-performance by Victorian Rail Track (VicTrack) under Motorola's subcontract with VicTrack or an inability of Motorola to enter into or extend such a subcontract)	✓
Fitness for purpose	Risk that the MMR network is not fit for purpose, including because it does not allow Motorola to perform the services as required.		✓
Operational costs	Risk that operational costs exceed Motorola's budgeted costs.	✓ (Only as a result of any change in the fees payable to VicTrack under any new or extended subcontract between Motorola and VicTrack)	✓

Table 5: Risk Summary – MMR contract extension (continued)

Risk category	Description or comment	State	Motorola
Operational requirements	Risk that the requirements for MMR operations to meet the State's specification are different than anticipated (subject to the risks identified below).		✓
Operational risks (continued)			
Industrial risk	Risk that industrial action prevents provision of the services.	✓ (Only if caused by a State act or omission)	✓
Lifecycle costs	Risks associated with the maintenance, replacement and refurbishment of the MMR network.	✓ (Only in respect of increases in pricing by reason of an updated lifecycle management schedule for any optional extension term where Motorola could not have reasonably foreseen the need for additional lifecycle works and it is outside Motorola's control)	✓
Utility price and volume risk	Risk of change in the price of the utilities required to operate the MMR network, and energy demand risk.		✓
Damage to the assets	Risk of damage to and reinstatement of assets used to deliver the MMR.	✓ (Only if caused by the State or a State introduced customer breaching of the MMRSA or being negligent or fraudulent, or an uninsurable force majeure event)	✓
Handback condition	Risk that, on expiry of the term, the MMR network does not meet the required standard.		✓
Customer introduced terminals	Risk of customer introduced terminals not operating and performing correctly, including on the MMR network.	✓	✓ (Only if caused by a modification to or upgrade of the MMR in relation to which Motorola breached its obligation to provide information about impacts of which it should have been aware)

Risk category	Description or comment	State	Motorola
Spectrum capacity	Risk that additional spectrum capacity is required to support network usage at the required performance standards.	✓	
Changes in law			
Changes in law (general)	Risk that a change in legislation (other than an MMR-specific change) will affect the services.	✓ (The State bears 50% of the increase in costs above an agreed threshold caused by general changes in law after the date of the Deed of Extension)	✓ (To the extent not borne by the State)
Changes in law (project specific)	Risk that a change in legislation applying specifically to the MMR will affect the services.	✓	
Tax risk	Risk of changes in income tax, GST or the law relating to taxes generally.	✓ (Only in respect of changes to GST payable where amounts are specified on a GST exclusive basis)	✓
Force majeure			
Force majeure	Risk of a defined 'force majeure' event affecting the provision of the services.	✓ (Only for uninsurable risks that cause damage, and to the extent that Motorola's obligations are suspended due to the force majeure event)	✓
Insurance			
Insurance risk	Risk that insurance cannot be obtained or that premiums increase significantly.	✓ (Only in respect of additional insurance or increased coverage requested by the State)	✓

2.4 General obligations of the contractor

There has been no reduction in the general obligations of Motorola under the Extension Contract, when compared to its general obligations under the MMRSA and the Transition Agreement prior to the date of the Deed of Extension. This Project Summary outlines Motorola's incremental works and service obligations that now form part of the Extension Contract.

Motorola is required to provide all the services necessary for or required in connection with the provision and operation of the MMR network (including all ongoing maintenance and support facilities) as detailed in the MMRSA, including for instance:

- ongoing maintenance and upgrade of the MMR network (core system, sites and consoles) to meet the required performance standards in the MMRSA. This also includes asset lifecycle services to ensure expected asset life is maintained throughout the term
- provision of MMR radio terminals and ongoing configuration management for the MMR Customers
- ongoing support and maintenance of MMR radio terminals in the field and operated by the MMR Customers
- help desk services to support reported MMR network and MMR radio terminal issues or requests lodged by the MMR Customers
- logging of certain voice and data information to support MMR Customers' information and archiving requirements
- regular reporting on MMR network performance and MMR Customer use of the MMR network.

2.5 General obligations of the State

There has been no material change in the general obligations of the State under the Extension Contract, when compared to the general obligations of the State under the MMRSA and the Transition Agreement prior to the date of the Deed of Extension. This Project Summary outlines the incremental works and service obligations that now form part of the Extension Contract, some of which introduce obligations on the State, particularly with regard to providing State deliverables and/or notifications to facilitate Motorola's conduct of that work or performance of that service in a timely fashion.

Under the Extension Contract, the State is obliged to pay the monthly service payment to Motorola, subject to reductions that may apply under the performance regime if services are not delivered to the required standard.

2.6 Payment mechanism and performance regime

The State pays Motorola a monthly service payment for the provision of services under the MMRSA and amortised capital investment funded upfront by Motorola (including for instance, agreed extension works and radio terminal refresh cost).

The service payment is at risk of reduction as a result of certain failures to achieve the performance standards specified in the MMRSA.

The previous MMR services payment regime required annual adjustment for actual Consumer Price Index (CPI) changes.

To drive better value for money and minimise the State's exposure to risk pricing for costs Motorola is not best placed to manage, the Extension Contract includes minor amendments to the services payment mechanism, as follows:

- monthly services payments have been agreed for the extension term with annual adjustments for:
 - actual annual CPI
 - a pre-agreed annual indexation rate reflective of average site lease indexation rates
 - site lease market rent review provisions (if applied) resulting in an uplift in site lease costs above the annual average indexation rate (subject to State involvement if required)
- any adjustments to spectrum licence costs, which are paid for on a pass-through basis
- all capital costs associated with the agreed extension works (which are to be completed within approximately 18 months of execution of the Deed of Extension) are amortised within the monthly services payments over the initial seven year extension term. No annual indexation is applied to these costs
- asset lifecycle works and associated amortised services payments may be reviewed in accordance with agreed principles with reference to the State's notified extension period to apply beyond the initial seven year extension term.

2.7 Default, termination and step-in regimes

2.7.1 Default

Default by Motorola under the Extension Contract will entitle the State to various remedies. The key remedy for which the Extension Contract provides is the power to require that Motorola prepare a proposed cure plan, have that plan accepted by the State, and remedy the default in accordance with the cure plan. Where the default is categorised under the Extension Contract as a 'major default', there is a specified cure period within which the default must be cured, depending on the nature of the default (which, in certain circumstances, may be extended by the State on request by Motorola).

Exceptions to the cure plan requirement apply where the default is not capable of being remedied or cured (in which event the State may instead give Motorola reasonable directions in relation to the default) or where, in the opinion of the State, the default places at risk the safety and welfare of members of the public or persons associated with the State or using the MMR network (in which event Motorola is obliged to immediately advise the State how it will proceed to remedy or cure the defect, and must proceed to do so, subject to a right of the State to give directions as to how the default is to be remedied or cured).

Where Motorola fails to remedy a default within the required period or fails to comply with the directions of the State in relation to a default that cannot be cured, or where a major default occurs that is not capable of being remedied or cured, this will give rise to a right for the State to terminate the Extension Contract.

The State may also be entitled to other remedies in the event of default, under the Extension Contract or under the general law (such as the right to be awarded damages).

2.7.2 Step-in

The step-in rights of the State (that is, the rights for the State to assume control and management of the whole or any part of the MMR network or services), as specified in the Extension Contract, can be triggered when:

- a default or termination event has occurred which, in the reasonable opinion of the State, puts at risk the safety or welfare of the general public or users of the MMR network or services
- any other event occurs in relation to the performance of the MMR network or services and the State reasonably considers that, if it does not exercise its step-in rights, there is or is likely to be a risk to the safety or welfare of the general public or users of the MMR network or services.

The services payments will be reduced during the State's step-in. Where the step-in due to the occurrence of a default or termination event, the reduction will reflect any abatements due as a result of the default or termination event and also reimburse the State for expenditure incurred as a result of exercising its step-in rights. Where the step-in occurred due to another event, the services payments will only be reduced to the extent that there are costs not being incurred by Motorola due to the State's step-in.

2.7.3 Termination

The Extension Contract may be terminated by the State as a result of the following:

- certain events of default that give rise to a termination right, as described in section 2.7.1 of this document
- a force majeure event which substantially prevents Motorola performing its material obligations under the MM RSA for a continuous period of three months or more
- a change in Victorian laws or government policy which has the effect of materially prejudicing the ability of the State to continue exercising its rights, and performing its obligations, under the MM RSA (subject to certain limited exceptions).

Where the Extension Contract is terminated before its expiry (in other words, prior to 7 July 2025 or, where the State has exercised one or more options to further extend the MM RSA, prior to that extended expiry date), the calculation of the transition payment payable to Motorola (as described in section 2.10 of this document) takes into account the nature of the termination event.

2.8 Process for government modification of services or network

The State may, at its sole discretion, request Motorola to implement modifications (to the MMR network or the services). This includes the ability to remove services from the project scope. Under the modifications regime, Motorola must provide an estimate of the financial impact of any modification proposed by the State and any consequential impacts to the MMR network or services.

The Extension Contract includes updated modification payment principles that provide a greater ability for the State to be provided with transparency over the underlying cost and detailed pricing of modifications

2.9 Finance

Motorola financed the original design and build of the MMR network without the need to introduce private financing into the contractual arrangements with the State. The original capital cost was then amortised over the contract term and included as part of the State's monthly services payments to Motorola.

The Extension Contract continues with this general approach. The extension works agreed as part of the MM RSA extension and the terminal refresh capital costs are being financed by Motorola, amortised over the extension term and included in the State's monthly services payment to Motorola.

Motorola's financial commitments and contractual obligations as contained in the MM RSA are backed by a parent company guarantee issued by its parent company, Motorola Solutions Inc, in the United States of America, in favour of the State of Victoria.

2.10 State's rights at expiry or termination of the Extension Contract

The Extension Contract requires Motorola to transfer ownership of MMR assets (which includes hardware, software licences, site leases and other contracts and records, but excludes certain excluded assets) to the State or its nominee at the expiry or termination of the term of the Extension Contract, except to the extent that the State directs Motorola not to transfer to it some or all of the assets. In the case of equipment, the items must be in a condition and with a residual life that meets the requirements of the Extension Contract. The handback provisions are described in the Extension Contract.

Detailed transition support obligations are set out in the Extension Contract, requiring Motorola to assist the State with transition to another service provider or alternative network and services at the end of term.

On expiry or termination, a transition payment will be calculated, depending on the nature of the event giving rise to the expiry or termination. The calculation of this payment takes into account a number of factors, including the agreed written down value of the assets as at the expiry or termination date, certain costs incurred by Motorola in discharging its transition out obligations, and certain amounts owing to or costs incurred by the State (including any amounts required to reinstate equipment to its required condition). In the event that the transition payment is a negative amount, Motorola must pay that amount to the State.

2.11 Audit and inspection rights of the State

The Extension Contract contains contractual rights for the State to be given access the necessary information to conduct audits of Motorola's performance under the MMRSA.

The Extension Contract sets out the rights for the State and certain third parties (including the Victorian Auditor-General, the Emergency Management Commissioner and the Ombudsman) to audit Motorola's financial arrangements with respect to the MMR network and services, whilst ensuring protection of certain confidential information obtained by a party conducting such audits under the MMRSA.

2.12 Other commercial terms within Extension Contract

Summarised below are some of the other new commercial terms that have been introduced into the Extension Contract, which seek to drive better value for money for the State through certainty of priced services and flexibility for the State and MMR Customers over the extended term of the MMRSA.

2.12.1 Lifecycle refresh approach (Network only)

Historically, investment for lifecycle refresh of the assets used to deliver the MMR services has been undertaken at the point a refresh is required, either through a modification under the MMRSA modifications regime or as part of prior MMRSA extension negotiations.

This exposed the State to uncertainty of costs resulting from such necessary investment to ensure continuity of MMR services at the contracted performance levels, or to obtain the benefits of new functionality.

The Extension Contract now includes a fully priced and contracted asset lifecycle and replacement program to ensure the MMR network continues to perform at its high contracted standards over the extension term. Motorola bears the risk of scope, timing and cost of all such works and all asset performance, residual life and condition risk of the MMR network throughout the extension term (subject to a right to revisit the scope, timing and costs for the purpose of aligning to the State's notified further extension term beyond the initial seven year extension term, and to provide for additional works that were not reasonably foreseeable and are outside Motorola's control).

The new regime ensures the risk allocation rests with the party best able to manage it, and means that Motorola can coordinate its new broader asset management obligations with its other maintenance and performance obligations under the MMRSA.

This regime will also be supported by improved transparency and planning in relation to overall asset management.

2.12.2 End of life refresh and extended support for radio terminals

Through the Metropolitan Device Refresh Procurement process, Motorola offered to support the refreshed MMR radio terminals for a period of up to 12 years, with no reduction in service performance levels. Terminal support services are therefore fully priced in the Extension Contract for up to 12 years.

This mitigates the risk to the State of a further material capital investment in terminals for the existing MMR Customers for the term.

2.12.3 Early transition of a customer off the MMR

The parties agreed to include the right for an MMR Customer to transition all or part of its operations off MMR to an alternative 'non-P25' network, including obligations for Motorola to assist with the transition. The implications of such a transition off would be managed via the modifications regime in the MMRSA.

This provides flexibility for emergency service agencies to migrate their operational communications to new and emerging technologies, if they become available during the MMRSA term.

2.12.4 Early transfer of assets back to the State

The parties agreed to include the right for the State to require the transfer of legal ownership of the MMR assets to the State (or its nominee) during the MMRSA term, as opposed to such a right being limited to the end of the contract term (as under the MMRSA prior to its extension). This may facilitate the State also using the MMR assets for other purposes, if appropriate.

In the event of an early transfer of assets back to the State, Motorola would continue to bear the cost and risk performance, residual life and condition of the MMR assets, consistent with the MMRSA provisions, unless any issues are caused by the State using the assets for another purpose where Motorola has advised the State of such risk (to the extent the risk could be reasonably known by Motorola and the State gave Motorola an opportunity to provide such information).

2.13 Current version

This document may be updated from time to time. Please refer to www.dtf.vic.gov.au for the current edition.

Appendix 1: Glossary

Term	Meaning
AV	Ambulance Victoria
Deed of Extension	the deed of extension, amendment and restatement of the MMRSA and the Transition Agreement executed by the State, Motorola and Motorola Solutions Inc on 19 December 2017 as part of the Project
DTF	Department of Treasury and Finance
EMOC Program	the Emergency Management Operational Communications Program within EMV
EMV	Emergency Management Victoria
ESLG	Emergency Services Leadership Group
ESO	emergency services organisation
ESTA	Emergency Services Telecommunications Authority
Extension Contract	the MMRSA and the Transition Agreement, each as amended and restated by way of the Deed of Extension
MDS	Managed Device Services
Metropolitan Device Refresh Procurement process	the process referred to by that name in section 1.3 of this document
MFB	Metropolitan Fire and Emergency Services Board
MMR	Metropolitan Mobile Radio, a dedicated emergency services radio network operated and maintained by Motorola under the MMRSA
MMR Customers	VicPol, MFB, AV and ESTA. The Extension Contract formalises the introduction of new customers onto the MMR network, including Victoria State Emergency Service, Corrections Victoria and Life Saving Victoria.
MMR Service Area	the area covering metropolitan Melbourne and Geelong over which the MMR provides coverage, as set out in the MMRSA
MMR Working Group	the working group established for the Project, as described in section 1.4 of this document
MMRSA	the Metropolitan Mobile Radio Services Agreement between the State and Motorola
Motorola	Motorola Solutions Australia Pty Ltd (ABN 16 004 742 312)
Negotiation Strategy	the document referred to by that name in section 1.3 of this document
Project	the Metropolitan Mobile Radio Sole Source Extension Negotiations Project (including the Metropolitan Device Refresh Procurement process)
Project 25 or P25	Project 25 (P25) is a suite of standards for interoperable two-way digital mobile radio communications designed primarily for use by public safety organisations. P25 was developed in North America with state, local and federal representatives and Telecommunications Industry Association (TIA) governance.
RFQ	the Request For Quote issued to Motorola in October 2016 as part of the Project
State	the State of Victoria
Transition Agreement	the transition agreement between the State and Motorola in relation to the MMR
VicPol	Victoria Police

Appendix 2: Useful references

Project documentation, including the Extension Contract, is available at: <http://www.tenders.vic.gov.au>

Partnerships Victoria policy guidance and project information is available at: <http://www.dtf.vic.gov.au>

Department of Justice and Regulation website: <http://www.justice.vic.gov.au>

Emergency Management Victoria website: <http://www.emv.vic.gov.au>

EMV EMOC Program: <https://files-em.em.vic.gov.au/public/EMV-web/EM-Operational-Communications-Program.pdf>

Appendix 3: Key contact details

Department of Justice and Regulation

Website: <http://www.justice.vic.gov.au>
121 Exhibition Street
Melbourne VIC 3000
Phone: (03) 8684 0000

Emergency Services Telecommunications Authority (ESTA)

Website: <http://www.esta.vic.gov.au>
33 Lakeside Drive
East Burwood VIC 3151
Phone: (03) 8656 1200

Emergency Management Victoria

Website: <http://www.emv.vic.gov.au>
121 Exhibition Street
Melbourne VIC 3000
Phone: (03) 8685 1355

Partnerships Victoria

Website: <http://www.dtf.vic.gov.au>
Department of Treasury and Finance
1 Treasury Place
East Melbourne VIC 3002
Phone: (03) 9651 5111

