



Port Phillip Prison

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# PROJECT SUMMARY

Partnerships Victoria  
Port Phillip Prison  
Contract Extension



Prepared by the Department of Justice and Regulation in conjunction  
with the Department of Treasury and Finance

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# Foreword

This Project Summary provides information about the commercial and contractual aspects of the Port Phillip Prison 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, the broad allocation of risk between the public and private sectors and the treatment of various key Project issues.

This Project involved a negotiation with the incumbent prison owner and operator for a long-term extension of the current Prison Services Agreement. In doing so, the State of Victoria (the State) has sought to update the contractual and commercial provisions, including alignment where appropriate with the Partnerships Victoria framework.

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 [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au).

### Note

*This Project Summary should not be relied upon to completely describe the rights and obligations of the parties in respect of the project, which are governed by the Amended and Restated Prison Services Agreement and associated documents. The Amended and Restated Prison Services Agreement and associated documents are available online at: [www.tenders.vic.gov.au](http://www.tenders.vic.gov.au).*

*Figure 1: View of Salamander unit at Port Phillip Prison*



# Project overview

## 1.1 Port Phillip Prison Contract Extension Project

Port Phillip Prison is a maximum-security men's prison in Victoria, which has been privately operated since September 1997 under a public private partnership contract between the State and G4S Correctional Services (Australia) Pty Ltd (G4S). The term of the original contract is 20 years, expiring in 2017. G4S was granted the rights to the site via a 50-year Crown lease, expiring in 2046 (referred to as the Original Site Lease).

The original contract is referred to as the Original PSA in this Project Summary. The Original PSA required G4S to design, finance, construct, operate and maintain the prison. The Original PSA included an option to extend the contractual arrangements, subject to the parties agreeing to the terms and conditions for such an extension.

Correctional services are still required at Port Phillip Prison and the Project was initiated by the State to negotiate the contractual arrangements to continue providing these services, and similarly for the Fulham Correctional Centre (see the Fulham Correctional Centre Contract Extension Project Summary for details at [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au)).

Following a 12-month negotiation period, on 17 December 2015 the State and G4S entered into an Amended and Restated Prison Services Agreement (the Extension Contract) for the continued management and operation of Port Phillip Prison. The terms of these extension arrangements will come into effect, subject to certain conditions precedent being met, on 10 September 2017. Subject to G4S' performance, the agreed extension arrangements will continue for up to 20 years.

The State and G4S also entered into a new site lease, which will replace the Original Site Lease from 10 September 2017. The term of the new site lease has been reduced and is now aligned with the term of the Extension Contract. The new site lease will terminate

on the termination or expiry of the Extension Contract.

The Original PSA covered both capital debt payments and operational and asset maintenance payments. The Extension Contract covers operational payments and asset maintenance payments. All capital debt payments have now been extinguished.

### The Contractor

G4S is the contracting party with the State, carrying the primary responsibility for the delivery of all services at Port Phillip Prison. G4S has expertise in the delivery of correctional services and, where appropriate, has subcontracted to parties with specialist expertise in key service areas such as health, education, and facilities maintenance. Refer to section 2.2 for details.

### The prison

Port Phillip Prison is located in Laverton, in the western suburbs of Melbourne. The prison has the capacity to accommodate up to 1087 prisoners. See further details in section 2.5.

Port Phillip Prison provides on-site secondary health services and forensic mental health services for its prisoners and the prison system more broadly.

### Project objectives

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

- » maintain correctional services at Port Phillip Prison, whether through the existing operator or a new service provider
- » establish contractual arrangements for Port Phillip Prison that ensure affordability, value for money and commercial and operational sustainability for a period beyond 2017

- » seek to update the Port Phillip Prison contractual arrangements, improve incentives for service performance results and maximise consistency with the Ravenhall Prison Project Agreement, thereby contributing positively to reductions in reoffending over the extension term
- » align the site lease with the contract extension term, with ownership of the Port Phillip Prison facilities reverting to the State.

The negotiated outcome with G4S achieved all of these objectives.

## 1.2 A Partnerships Victoria public private partnership

Since its inception in the mid-1990s, Port Phillip Prison has been delivered as a public private partnership project, contracted in accordance with the Victorian Government's guidelines at the time for public private partnership infrastructure projects.

Given the State's need to continue correctional services at Port Phillip Prison, a key objective was to update the contractual and commercial arrangements to be more consistent with the current guidelines for public private partnership projects (the Partnerships Victoria framework).

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 requires 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 (May 2013).

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 [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au), respectively.

## 1.3 Procurement process

### Procurement options analysis

In 2013, the State assessed a range of procurement options, including:

- a. allowing the Original PSA to expire and ceasing use of the facility
- b. transferring facility management and service delivery to the State
- c. negotiating an extension to the Original PSA
- d. conducting a competitive market tender.

### Key findings

The option to negotiate an extension to the Original PSA was preferred because:

- » This option was considered best able to achieve the Project's objectives for ongoing provision of services at the prison
- » There is a clear and compelling need to retain the prison in order to meet projected demand for prisoner beds in Victoria
- » The prison is in good structural condition and remains suitable for the provision of services for a further extension period, subject to reasonable refurbishment and continued asset maintenance

- » The service outcomes delivered by G4S under the Original PSA are cost efficient compared to those delivered at public correctional facilities and represent value for money for the State, in terms of risk allocation and removal of operational interfaces that would otherwise need to be managed by the State
- » It was considered that negotiations with the incumbent contractor and leaseholder (G4S) could resolve the material misalignment of approximately 29 years between the Original Site Lease expiry in 2046 and the Original PSA expiry in 2017, and improve the end-of-term arrangements for the State
- » The State could seek a response from G4S on updating the contractual and commercial arrangements or adding new service or asset requirements, allowing the State to clearly identify the incremental impacts and thereby assess the value-for-money proposition. Value for money could be achieved through an appropriately structured negotiation process, supported by rigorous cost and benchmarking assessments
- » If the negotiated outcome did not represent value for money or did not achieve either party's objectives for the facility and related services, this option allowed sufficient time to revert to an alternative for service delivery, such as a competitive tender or State management
- » The implication of the other options was that the State would likely need to acquire the Original Site Lease from G4S (of which the residual term was approximately 29 years).

## Business Case

Based on the preferred procurement approach, the State prepared a business case to fully scope the potential contract extension for Port Phillip Prison. The business case clarified and outlined the State's objectives and included requirements in regards to correctional services, the prison facility and proposed commercial principles. Based on these requirements, the business case estimated the potential financial cost of the anticipated negotiated outcome. The business case

underpinned the State's decision to enter into sole-source negotiations with G4S and provided robust parameters within which to negotiate.

## Negotiation Strategy, process and timeline

In accordance with clause 35 of the Original PSA, if the contract was to be extended beyond the term of the Original PSA, expiring in September 2017, the State and G4S were required to agree the terms of such an extension. The State could not extend the contract on the existing contractual terms without agreement from G4S.

The State was under no obligation to execute an extension with G4S if the terms of the extension could not be agreed. The contractual timeframes allowed sufficient time (two years) to accommodate an alternative process, including transition to a new service provider if required.

The State developed a detailed Negotiation Strategy to ensure that the extension negotiations achieved the State's objectives within the approved negotiation parameters and the contracted timeframes in the Original PSA. The Negotiation Strategy outlined the governing principles and approach to the negotiation process and considered how best to optimise value-for-money outcomes. The State also gave careful consideration to a suitable alternative procurement strategy that could be implemented if the extension negotiations were unsuccessful.

On 22 August 2014 the State wrote to G4S, in accordance with clause 35 of the Original PSA, requesting that negotiations be held in relation to a possible contract extension. A Probity and Process Deed governed the probity and confidentiality arrangements. G4S agreed to full transparency of all proposed incremental costs and supporting assumptions. This facilitated assessment and benchmarking on a 'component by component' basis. Detailed consideration was therefore given to every aspect of the negotiations, including contractual risk allocation, commercial regimes, operational proposals and asset investment initiatives.

On 19 December 2014 the State issued G4S with its initial contract extension requirements, including detailed contractual documents, specifications and other supporting schedules. The parties held clarification and exploratory sessions to ensure an understanding of the State's requirements. In February 2015 G4S provided its response to the State. Following assessment by the State, the parties commenced more detailed negotiations from March 2015.

On 10 June 2015 the State and G4S signed a Heads of Agreement. This agreement, while not legally binding, established detailed terms and

principles that provided a clear baseline upon which to progress and finalise the contract extension negotiations.

In parallel to its negotiations with the State, G4S was required to reach agreement on extension terms with its subcontractors for the provision of various service categories at the prison. Where appropriate, the State assisted G4S in this process through direct involvement in the negotiations.

On 17 December 2015, the parties executed the contract extension, including back-to-back arrangements between G4S and its subcontractors. Table 1 sets out the key dates in the negotiation process.

**Table 1: Negotiation timeline – key dates**

Negotiation phase	Date
The State invited G4S to commence extension negotiations	22 August 2014
The State issued an initial Extension Requirements Pack to G4S	19 December 2014
Clarification period	December 2014 to February 2015
G4S submitted its response to the State's Extension Requirements Pack	February 2015
Detailed negotiation period	March 2015 to November 2015
Heads of Agreement executed	10 June 2015
Extension Contract executed	17 December 2015
Extension Contract commencement	10 September 2017
End of extension term	9 September 2037

## 1.4 Governance structure

The State established a formal governance structure to steer the negotiations and approve major Project milestones. The governance structure is represented in Figure 2.

### Steering Committee

The interdepartmental Steering Committee members were selected based on the need for

government stakeholder representation and requirements for appropriate and relevant skills and experience. Members included senior representatives from key business groups within the Department of Justice and Regulation, and from the Department of Premier and Cabinet and the Department of Treasury and Finance. Specialist probity, commercial, legal and technical advisers,



as well as other government agencies such as the Victorian Government Solicitor’s Office, supported and advised the Steering Committee as required.

The Steering Committee reported to the Secretary, Department of Justice and Regulation and to the Minister for Corrections.

**Project Coordination Group**

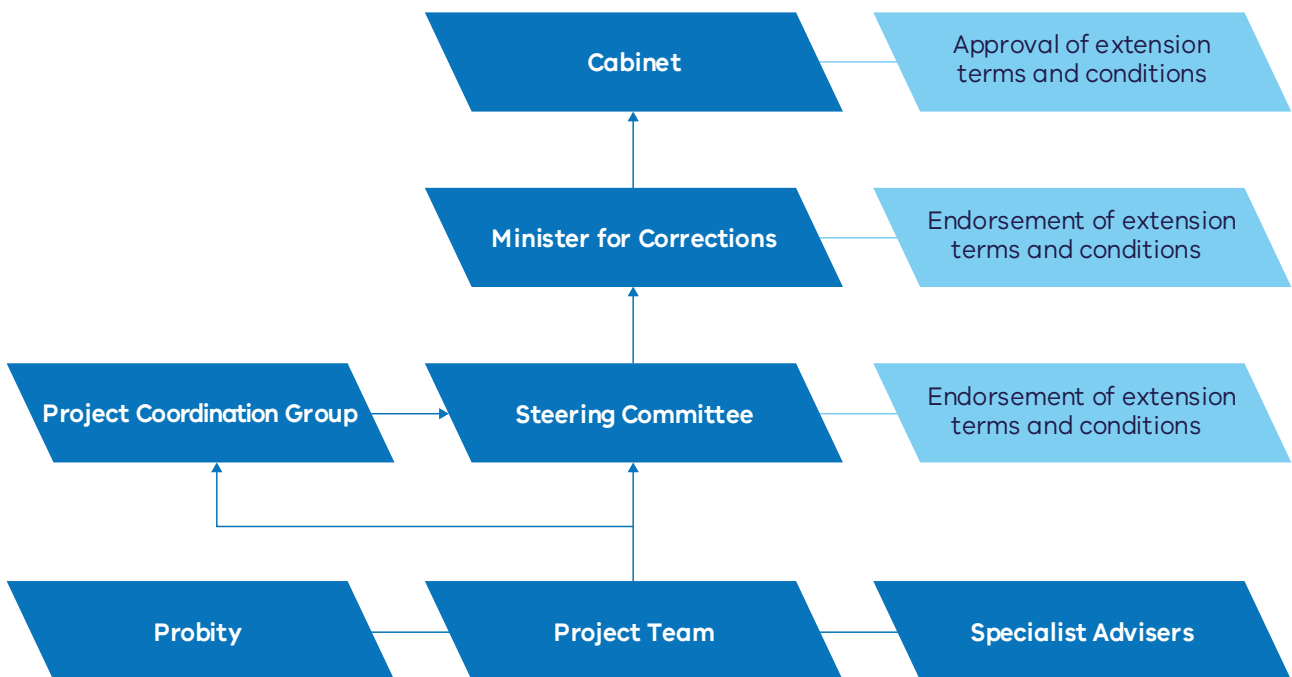
A Project Coordination Group, comprising a selection of Steering Committee members, was established to provide specialist and focused advice to the Project Director on specific aspects of the Project. Outcomes from the Project Coordination Group were reported to the Steering Committee by the Project Director.

**Project team**

A Project Director was appointed to lead the Project and negotiations with G4S, with accountability to the Steering Committee. A core team was established to manage all aspects of the Project, including:

- » negotiations with G4S and its subcontractors
- » liaison with and involvement of key Project stakeholders
- » management and involvement of the State’s third-party advisers, including commercial, legal, technical and probity advisers
- » Project planning, monitoring and reporting
- » issues and risk management
- » development of project documentation.

Figure 2: Project governance structure



## Probity

The negotiation process was undertaken within a robust probity framework, which was endorsed by the Project's 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.

At the completion of the negotiation process, the Probity Adviser confirmed that the process had been conducted in accordance with the applicable requirements, the Probity and Process Deed, and the approved Negotiation Strategy.

## 1.5 Negotiated outcome and value-for-money assessment

### Negotiated Outcome

The negotiated outcome for Port Phillip Prison achieved the State's objectives for the extension term and represents value for money for the State. The negotiations achieved:

- » long-term contractual arrangements for 10 years (Initial Term) plus a further 10 years (Further Term), with a long-term performance incentive structure for triggering the Further Term

(During the Initial Term, G4S is required to achieve a set of contractual, commercial and operational thresholds measured over a specified three-year period (the Extension Conditions). If the State determines the Extension Conditions have been achieved, G4S will be entitled to the Further Term otherwise the decision to extend reverts to the State.)

- » updated contractual provisions and commercial regimes, including refined risk allocation and improved enforceability through greater clarity of provisions
- » a rigorous asset management and investment regime, including ISO55001 accreditation, to ensure asset sustainability and economic use for the extension term, with G4S taking residual life risk. A sinking fund model has been established to promote strategic management of asset lifecycle and maintenance investment, and continuous improvement and efficiencies. The State will share in any cost savings at the end of the term

- » improved clarity and detail within the contracted services specification
- » restructured payment, performance and reporting mechanisms, including a strengthened performance incentive regime to drive continuous service quality and asset availability
- » an improved modifications regime within the contract, providing the State with the flexibility to adapt services and/or facility requirements over time, with pre-agreed pricing parameters
- » improved contractual security for the State, including a parent guarantee and an increased performance bond
- » a high degree of contractual and commercial consistency (where appropriate) with the Ravenhall Prison Project Agreement and the Fulham Correctional Centre contract extension, providing contract management and operational management efficiencies across the State's private prisons
- » alignment of the term of the Extension Contract and the term of the new site lease, including improved end-of-term arrangements for the State and ownership of the facility reverting to the State from the commencement of the extension term.

Table 2 summarises the total nominal and net present cost of the negotiated outcome for the extension term.

Table 2: Disclosure of total nominal cashflows and net present cost

Sum of nominal cashflows over the Extension Contract (nominal) (\$m)	Net present cost of negotiated outcome as at 30/6/2015 (\$m)	Discount rate used to arrive at net present cost (% nominal)
3113	1831	4.13

**Notes:**

- The negotiated outcome (both nominal and net present costs) includes all operating costs, asset maintenance and lifecycle costs over the extension term, including all applicable margins and costs payable to G4S and its subcontractors. It also includes an estimate of expected pass-through costs, such as the cost of forensic mental health services provided by Forensicare and council rates.
- The sum of nominal cashflows over the extension term has been calculated by applying the 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 June 2015 dollars, taking into account the time value of money. This is accepted as the most financially robust and appropriate method of measuring costs of long-term projects.
- All values expressed in net present cost are as at 30 June 2015 and discounted at a nominal rate of 4.13 per cent, calculated in accordance with the National PPP Guidelines.

**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 operational model, negotiated risk allocation, commercial regimes and extension pricing achieved value for money and affordability criteria. These included:

- » a sample open-book process on G4S' existing cost base by the State's commercial adviser to test the reasonableness of operational and commercial pricing assumptions
- » construction of a Public Sector Comparator for price comparisons with the option of State delivery, based on actual specification and performance requirements and historical operational information, with sensitivity analysis of various scenarios
- » where appropriate, targeted benchmarking against the cost of other Victorian prisons
- » progressive and conclusive legal assessment of the negotiated risk allocation compared with other Victorian private prison arrangements and the Partnerships Victoria framework
- » utilisation of technical advisers and subject matter experts to validate and negotiate asset investment proposals, assumptions and pricing
- » assessment of operational and commercial pricing assumptions against the State's business case forecasts.

The following benefits of the Extension Contract outcome are highlighted from a value for money and affordability perspective:

1. The negotiated outcome is better value for money than alternatives, such as transferring services to State delivery or an alternative private sector entity through a competitive tender. The approach taken also avoided a number of costs and risks related to lease acquisition, running a competitive tender process and transition of service providers
2. The negotiated outcome is operationally and commercially sustainable for the extension term
3. The negotiated price is consistent with the approved business case budget
4. The negotiated price is approximately 10.6 per cent lower than the State's developed Public Sector Comparator for Port Phillip Prison (see Tables 3 and 4)
5. The extension arrangement reflects a contemporary payment and abatement regime in which the whole service payment is 'at risk' for G4S, subject to their performance. This risk will be managed by G4S over the extension term through operational management practices and direct asset investment, with the risk margin commensurate with the level of residual risk to G4S

6. The negotiated outcome provides for an asset lifecycle and replacement program to ensure current levels of service and performance, as well as the residual life of the prison, are maintained throughout the extension term. G4S (with Honeywell Limited as the facilities management subcontractor) bears all asset performance, residual life and condition risk throughout the extension term
7. The negotiated outcome secures an improved risk position for the State, which is largely consistent with the risk transfers achieved through the Fulham Correctional Centre contract extension and, where appropriate, the Ravenhall Prison Project Agreement
8. Improved end-of-term arrangements and transition requirements in the Extension Contract also seek to mitigate risks associated with any future tender process that may be required upon termination or expiry of the Extension Contract.

## Public Sector Comparator

The Public Sector Comparator (PSC) is an estimate of the hypothetical, risk-adjusted, whole-of-life cost of the Project if delivered by the State. The PSC is developed in accordance with the output specification and risk allocation proposed for the private sector party arrangement, and is based on the most likely and efficient form of conventional (that is, non-public private partnership) delivery by the State.

The PSC is expressed in terms of the net present cost to the State, calculated using a discounted cash flow method taking full account of the costs and risks that would arise through State delivery.

The Port Phillip Prison PSC included estimates for all operating costs and facility management and asset lifecycle costs over the 20-year

extension term. In this instance, given Port Phillip Prison operations were close to 20 years old, there was a proven operational model that provided cost and performance information that the State could reference. Various G4S subcontracted services were considered likely to be contracted under a State-delivered model, for instance health services and facility management services. These G4S subcontracts were therefore used as a proxy for the delivery cost of such services.

Table 3 summarises the elements of the PSC.

**Table 3: Components of the Public Sector Comparator**

Components of the PSC	Net present cost (\$million)
Lifecycle and asset service costs	106
Operating costs	1880
<b>Raw PSC</b>	<b>1986</b>
Transferred risks	53
Competitive neutrality	11
<b>PSC (excluding retained risk)</b>	<b>2050</b>

### Notes:

- All values expressed in net present cost are as at 30 June 2015. State-delivered PSC costs were discounted at a nominal discount rate of 3.33 per cent. Subcontracted services under the PSC were discounted at a nominal discount rate of 3.50 per cent.
- The transferred risk totalling \$53 million net present cost refers only to those asset lifecycle and operating risks transferred to the private sector under the Partnerships Victoria arrangements (that is, those risks that the State would otherwise assume) and excludes the State's estimates of its retained risks.

Table 4 sets out the net present cost of the negotiated outcome for the extension term and compares this cost against the PSC.

**Table 4: Comparison of the net present cost of the negotiated outcome to the Public Sector Comparator**

Negotiated outcome (\$million)	PSC (\$m)	Savings (\$m)	Savings (%)
1831	2050	219	10.6

**Notes:**

- Net present cost comparison is accepted as the most financially robust and appropriate method of comparing costs of long-term projects. The PSC has been developed on a comparable basis to the negotiated outcome in terms of risk allocation and scope of services.
- Costs under the negotiated outcome were discounted at a nominal discount rate of 4.13 per cent. As noted under Table 3, the State-delivered PSC costs were discounted at a nominal discount rate of 3.33 per cent and subcontracted services under the PSC were discounted at a nominal discount rate of 3.50 per cent. All values expressed in net present cost are as at 30 June 2015.
- Sensitivity analysis was conducted on the PSC components, negotiated cost estimates and discount rate assumptions, providing a value-for-money outcome compared to the PSC of between 9 to 12 per cent.

### Public interest considerations

Prisoner numbers are not expected to decline in the coming years, demonstrating a need for Victoria to maintain and invest in existing prison facilities and services. The State continues to support safer Victorian communities by delivering and funding a stronger, more adaptable corrections system.

The correctional services system provides a number of critical and unique opportunities to enhance community safety, by managing and working with prisoners to reduce recidivism and maximise their chances of successful reintegration into the community. Port Phillip Prison forms an integral part of this system,

accounting for approximately 17 per cent of the prisoner population, based on the average prisoner occupancy rate across the Victorian prison system in February 2016. It securely and humanely contains prisoners and provides a comprehensive range of educational, training, vocational and cognitive behavioural programs and services tailored to meet the risks and needs of each prisoner cohort. G4S actively works with prisoners to reduce their risk of reoffending and maximise their potential to positively, confidently and safely reintegrate into the community.

G4S is required to comply with all the relevant standards set out in the Extension Contract to ensure continued prisoner and community safety, including:

- » the Correctional Management Standards
- » the Justice Health Policy, Quality Framework, and Alcohol and Other Drugs Framework
- » the Commissioner's Requirements
- » the Standard Guidelines for Corrections in Australia
- » the Offender Management Framework and the Offending Behaviour Programs Delivery Model
- » the Cell and Fire Safety Guidelines (subject to the year in which the relevant buildings were built)
- » the National Construction Code of Australia
- » the *Occupational Health and Safety Act 2004*.

## Key commercial features

### 2.1 Project documents

On 17 December 2015, the Minister for Corrections, on behalf of the State, executed the Extension Contract and other associated documents with G4S and other related parties to operate and maintain the Port Phillip Prison over the extension term, commencing from 10 September 2017.

In accordance with Victorian Government policy, the executed Extension Contract and associated documents are publicly disclosed and available at [www.tenders.vic.gov.au](http://www.tenders.vic.gov.au).

### 2.2 Parties to the Extension Contract and associated documents

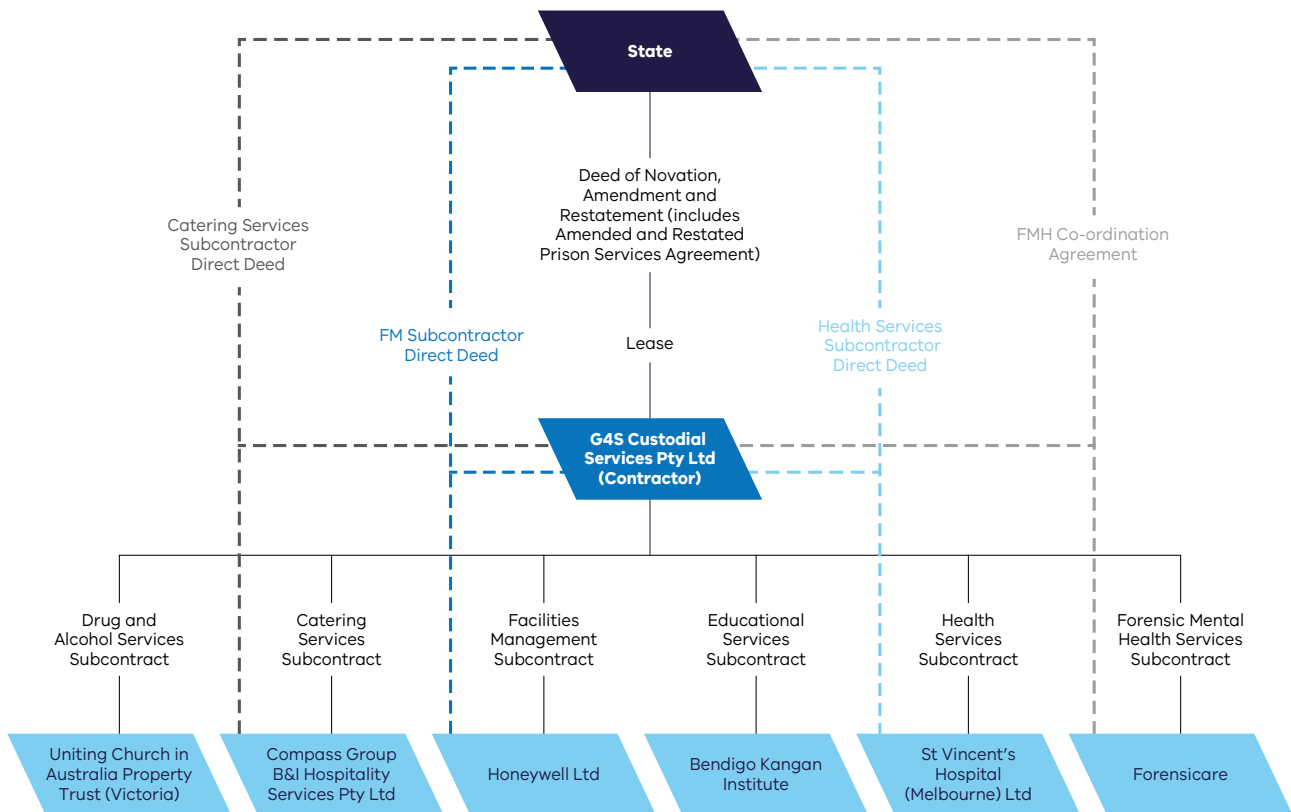
The relevant parties under the contractual arrangements are:

- » The State is a signatory to the Deed of Novation, Amendment and Restatement which includes the Amended and Restated Prison Services Agreement and other ancillary project documents. The Minister for Corrections is the person empowered to execute these documents on behalf of the State
- » The Contractor – G4S Correctional Services (Australia) Pty Ltd – is the contracting party with the State, carrying the primary responsibility for the delivery of all services at Port Phillip Prison. On 10 September 2017, the Extension Contract will novate from G4S Correctional Services (Australia) Pty Ltd to G4S Custodial Services Pty Ltd, which has been the prison services operator at Port Phillip Prison since 1997, through a subcontract to G4S Correctional Services (Australia) Pty Ltd. For simplicity in this Project Summary, both G4S entities are referred to as 'G4S', although specific entity references are used where necessary for clarity
- » G4S subcontracts various services to the following parties:
  - » The Facilities Management Subcontractor is Honeywell Limited for delivery of facilities management for the prison, including lifecycle and asset maintenance works
  - » The Health Services Subcontractor is St Vincent's Hospital (Melbourne) Ltd
  - » The Forensic Mental Health Services Provider is Forensicare, the Victorian Institute of Forensic Mental Health, a body corporate established under section 117B of the *Mental Health Act 2014 (Vic)*, with an FMH Coordination Agreement to which the State is also a party
  - » The Education Services Subcontractor is Bendigo Kangan Institute
  - » The Catering Services Subcontractor is Compass Group B&I Hospitality Services Pty Ltd
  - » The Drug and Alcohol Services Subcontractor is the Uniting Church in Australia Property Trust (Victoria) (ReGen).

## 2.3 Contractual relationships

The relationship between the State, G4S and other related parties is detailed in the Extension Contract and associated documents. The key contractual relationships are outlined in Figure 3.

Figure 3: Key contractual relationships



## 2.4 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. The Extension Contract has

reduced the level of risk retained by the State compared to the Original PSA. 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 Extension Contract. Where a risk is allocated to both parties the parties may not share that risk allocation equally. All risks are dealt with in detail in the Extension Contract and associated documents.

# 2

**Table 5: Risk allocation**

Risk category	Description or comment	State	Contractor
<b>Site risks</b>			
Contamination	Risk of contamination at the site.	✓ (Only where the State causes the contamination or where the contamination has migrated from another site.)	✓
Rates	Payment of rates for the project (if applicable).	✓ (Only in respect of the site.)	✓
<b>Operational risks</b>			
Performance standards	Services provided do not meet the State's specified performance standards.		✓
Fitness for purpose (during the extension term)	Risk that the prison is not fit for purpose, including because it does not allow the Contractor to perform the services as required.		✓
Operational costs (non-Reviewable Services)	Risk that operational costs exceed the Contractor's budgeted costs over the extension term.	✓ (The State bears repricing risk each time correctional services wages are benchmarked, subject to conditions.)	✓ (The Contractor bears all pricing risk between benchmarking periods.)
Operational costs (Reviewable Services)	Risk that operational costs exceed budgeted costs over the extension term.	✓ (The State bears repricing risk each time Reviewable Services are reviewed, subject to conditions.)	✓ (The Contractor bears all pricing risk between Reviewable Services periods.)
Operational requirements	Risk that the requirements for operation to meet the State's specification are different than anticipated (subject to the risks identified below).		✓



Risk category	Description or comment	State	Contractor
Industrial risk	Risk that industrial action prevents provision of the services.	✓ (Only if caused by a State act or omission outside of the Extension Contract.)	✓
Forensic mental health services	Risk that the forensic mental health services are not properly performed, exceed budgeted costs or interfere with the delivery of the Services.	✓ (To the extent that Forensicare fails to properly perform the forensic mental health services or interferes with Contractor's delivery of services, despite Contractor meeting its administrative oversight and coordination obligations.)	✓ (To the extent that the Contractor's failure to meet its forensic mental health administrative oversight and coordination obligations causes the loss.)
Lifecycle costs	Risks associated with the maintenance, replacement and refurbishment of the prison.		✓
Utility price and volume risk	Risk of change in the price or volume for the utilities used at the prison.	✓ (Repricing risk each time unit prices are benchmarked.)	✓
Damage to the asset	Risk of damage and reinstatement of asset.	✓ (Only if caused by a State breach or negligence or by Forensicare.)	✓
Hand-back condition	Risk that on expiry of the term, the prison does not meet the required standard.		✓
<b>Changes in law or policy</b>			
Changes in law or policy (general)	Risk that a change in legislation, or mandatory policy, applying generally, will affect the services.	✓ (The State bears the risk of general changes in law after the date of the Deed of Novation, Amendment and Restatement.)	

Risk category	Description or comment	State	Contractor
Changes in law and policy (project-specific)	Risk that a change in legislation, or mandatory policy, applying exclusively to the project, will affect the services.	✓	
Tax risk	Risk of changes in income tax, GST or the law relating to taxes generally.		✓
<b>Force majeure</b>			
Force majeure	Risk of a defined 'force majeure' event affecting the provision of the services.	✓ (Only for uninsurable risks that cause damage.)	✓
<b>Insurance</b>			
Insurance risk	Risk that insurance cannot be obtained or that premiums increase significantly.	✓	✓

## 2.5 General obligations of the Contractor

G4S is required to maintain and operate a maximum-security prison to accommodate 1087 male prisoners (contracted capacity). This includes accommodation and services for 822 mainstream prisoners (a 30-bed forensic mental health unit is included in this number) and 265 protection prisoners.

In addition, the prison must have:

- » observation cells (a minimum of 18 prisoner places)
- » a subacute healthcare unit (a minimum of 20 prisoner places)
- » 'Flex' beds (a minimum of 40 prisoner places) to provide a buffer if any of the beds required to meet contracted capacity become unavailable for any reason

(these cells or beds do not provide additional prison capacity).

G4S is required to provide a full range of services at the prison during the extension term, including correctional, health, forensic mental health and facilities management services and pre-release programs, and must meet the same standards as all other Victorian prisons. G4S is responsible for asset lifecycle works and will bear whole-of-life asset condition and performance risk in relation to the prison.

Table 6 summarises the services G4S will provide. This is not an exhaustive list; the full details of the services are contained in the Extension Contract.

Table 6: Summary of services to be provided by G4S

Service	Description
Prisoner management services	<ul style="list-style-type: none"> <li>Integration with the Victorian prison system</li> <li>Prisoner management</li> <li>Case management of prisoners</li> <li>Accept all prisoners allocated up to the available prisoner places</li> <li>Maintain an Operating Manual</li> <li>Risk management</li> <li>Continuous improvement</li> </ul>
Safety and security services	<ul style="list-style-type: none"> <li>Security processes such as searches, intelligence systems, telephone monitoring, CCTV, access control, relevant interfaces</li> <li>Prisoner receptions and appropriate classification and placement</li> <li>Management of a structured prisoner day</li> <li>Disciplinary processes and incident reporting</li> <li>Manage and respond to all incidents that occur in prison, including prisoner injury or deaths in custody</li> </ul>
Programs and reintegration services	<ul style="list-style-type: none"> <li>Offending behaviour programs</li> <li>Education and vocational training</li> <li>Prison industries</li> <li>Personal visits</li> <li>Pre-release services to promote successful reintegration into the community and reduce the risk of reoffending</li> <li>Religious services</li> </ul>
Health services	<ul style="list-style-type: none"> <li>Primary and secondary health services</li> <li>Access to tertiary health services</li> </ul>
Forensic mental health services	<ul style="list-style-type: none"> <li>Psychosocial rehabilitation inpatient services</li> <li>Forensic mental health specialist outpatient services</li> <li>Overnight 'at-risk' assessments</li> <li>Integration of forensic mental health services delivered by Forensicare with all other services within the prison</li> </ul>
Catering services	<ul style="list-style-type: none"> <li>Food</li> <li>Bedding</li> <li>Clothing</li> <li>Personal hygiene</li> </ul>

Service	Description
Administration services	<ul style="list-style-type: none"> <li>Staff training, selection and deployment</li> <li>Pre-service training modules</li> <li>Prisoner records management</li> <li>Requests and complaints</li> <li>Prisoner communications</li> </ul>
Facility management services	<ul style="list-style-type: none"> <li>General facilities management services</li> <li>Asset management services</li> <li>Utilities and medical gas management services</li> <li>Waste management and disposal services</li> <li>Grounds maintenance services</li> <li>Pest control services</li> <li>Cleaning services</li> </ul>

*Figure 4:  
Greenhouse  
at Port  
Phillip Prison*



## 2.6 General obligations of the State

Under the Extension Contract the State is obliged to pay the Quarterly Service Payment (QSP) to G4S, subject to reductions that may apply under the performance regime if services are not delivered to the required standard.

The State is also obliged to pay G4S defined fees for certain transition obligations and conditions precedent under the Deed of Novation, Amendment and Restatement, prior to the commencement date of the extension arrangements.

### Services to be delivered by the State

The State will continue to provide a range of services that interface with the prison, through various departmental business units or government entities such as:

- » Corrections Victoria
- » Justice Health
- » Community Correctional Services
- » Office of Correctional Services Review
- » Office of the Health Services Commissioner
- » Ombudsman Victoria.

## 2.7 Capacity, muster and reducing tranches

G4S will receive payment for the number of prisoner places made available for use by the State to hold prisoners, up to a maximum capacity of 1087. Several physical elements of the assets, such as cell, bed, lighting and hygiene facilities, contribute towards the definition of the prisoner place being 'available' (or suitable) for holding a prisoner. Also factored in to the prisoner place definition are services, such as catering and health care.

Payment does not vary depending on the muster of the prison. The Extension Contract

allows the State to determine the number of prisoner places to be made available by turning a limited number of tranches on or off within the maximum capacity of 1087. When a tranche is turned off, the service payment made to G4S will be reduced by a pre-agreed amount. Where a tranche is reinstated, so is the service payment made to G4S. This regime is intended to improve the value for money for the State at times when the full capacity of the prison is not required for reasonably foreseeable periods of time.

## 2.8 Payment mechanism and performance regime

The payment mechanism and performance regime have been updated in the Extension Contract, to be largely consistent with the Fulham Correctional Centre contract extension arrangements, Ravenhall Prison Project Agreement and the Commercial Principles in the National Public Private Partnerships Policy and Guidelines and Partnerships Victoria

Requirements. The new regime allows for the service payment to be varied based on G4S' performance, as an incentive to perform and meet the required standards.

The State will pay for the services in the form of the QSP. Table 7 summarises the components of the service payment made to G4S for delivery of the required services.

*Table 7: Summary of service payment components*

Payment Mechanism Component	Description
<b>Base Components</b>	
Available Prisoner Place Fee	<p>An Available Prisoner Place payment will be made to G4S to the extent that it provides prisoner accommodation in accordance with the Available Prisoner Place requirements. Payments will be reduced if G4S fails to meet these requirements. This includes provision of prisoner accommodation that meets certain physical requirements, such as:</p> <ul style="list-style-type: none"> <li>» Compliance with the Cell and Fire Safety Guidelines</li> <li>» Provision of potable water</li> <li>» Appropriate heating, lighting</li> </ul> <p>As well as the provision of basic operational services, such as:</p> <ul style="list-style-type: none"> <li>» The delivery of appropriate meals</li> <li>» The provision of minimum out of cell hours</li> <li>» The provision of health services</li> <li>» The delivery of appropriate clothing</li> <li>» Provision of a safe and secure environment.</li> </ul>
Service Linked Fee	<p>A Service Linked Fee will be paid to G4S for the provision of all required services, including correctional, health, maintenance, education, catering and other services.</p> <p>The Service Linked Fee will be reduced where G4S fails to achieve the required Service Delivery Outcome (SDO) and Key Performance Indicator (KPI) thresholds.</p>
Lifecycle payments	<p>G4S and its facilities management subcontractor are obliged to meet all lifecycle requirements of the prison and its assets, in order to meet defined residual life and fit-for-purpose requirements. A schedule of forecast works and associated costs for the extension term has been agreed, and payments will be made by the State based on the pre-agreed payment profile and G4S complying with its asset management obligations. Payments will be made through a dedicated sinking fund, with any unspent funds at the end of the term to be equally shared between the State and G4S.</p>
Forensic Mental Health Services Fee	<p>The model for the delivery of forensic mental health services involves G4S subcontracting with Forensicare.</p> <p>Payments to Forensicare under the nominated subcontract will be made on a 'pass through' basis from the State, through G4S then on to Forensicare.</p> <p>Administrative oversight and coordination of forensic mental health services is the responsibility of G4S and is subject to performance KPIs under the Service Linked Fee.</p>

Payment Mechanism Component	Description
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Base Components	
Variable and other pass-through payments	G4S will receive payments from the State to meet specified variable and other pass through payments when they are incurred.
Potential payment adjustments	
Reviewable Services	The Extension Contract includes a mechanism for the cost of Reviewable Services to be reviewed towards the end of the Initial Term, prior to commencement of the Further Term.
Benchmarked costs	The Extension Contract includes a periodic benchmarking process whereby payments made by the State for specified cost components may be adjusted subject to benchmarking provisions, including unit pricing of utilities, wages costs and certain project specific insurances.

### Charge Events

The Extension Contract contains a small number of 'Charge Events'. If such an event occurs, G4S must pay the State a set amount to recompense it for the additional cost it expects to incur. The Charge Events relate to:

- » prisoner escape
- » act of material indiscipline (including riot and hostage situations)
- » unnatural death
- » professional misconduct.

## 2.9 Default, termination and step-in regimes

### Default

Default by G4S under the contractual arrangements will entitle the State to various remedies. When a default has occurred, the State will, in most circumstances, be required to give G4S an opportunity to remedy the default. If the default is not remedied by G4S within the required period, it will escalate to a major default.

The Extension Contract also elevates a number of events to be immediately classified as a major default.

In respect of major defaults, G4S will have an opportunity to provide a remedy plan to the State setting out how it will remedy the major default (if the default is capable of remedy),

or to otherwise comply with the reasonable requirements of the State (in circumstances where the default is not capable of remedy). Where G4S fails to remedy the major default within the required period or fails to comply with the reasonable requirements of the State to overcome the consequences of the major default (as applicable), this will generally give rise to the State's right to terminate the Extension Contract.

Certain events of default are so severe that they are not subject to a remedy regime. They give rise to a State termination right immediately upon their occurrence (for example, insolvency of G4S or fraud or dishonest conduct of G4S in performing its obligations under the Extension Contract).

### Step-in

In addition to triggering termination rights (or potential termination rights), events of major default and default termination events may trigger additional State rights and remedies, including:

- » the right to step in to remedy the situation (that is, to assume control and management of the whole or any part of the prison or the services)
- » the right to require G4S to replace a subcontractor that caused a major default, as part of the program to comply with the reasonable requirements of the State in connection with the major default.

The step-in rights of the State, as specified in the Extension Contract, can be triggered when:

- » a major default has occurred and has not been remedied, or a default termination event has occurred
- » there is an emergency
- » the *Corrections Act 1986* or another law gives a statutory right of step-in.

The QSP will be abated to the extent that the services are not being provided by G4S during the State's step-in.

### Termination

Where the Extension Contract is terminated before its expiry (the Initial Term expires on 9 September 2027, and the Further Term on 9 September 2037) G4S may be entitled to a termination payment. The Extension Contract may be terminated as a result of the following:

- » certain events of default (default termination event)
- » a force majeure termination event (including an uninsurable event)
- » for the convenience of the State.

The basis for calculating the termination payment will be determined by the nature of the termination and then calculated in accordance with the provisions in the Extension Contract. In the event that the termination payment when calculated is a negative amount, G4S must pay that amount to the State.

## 2.10 Process for government modification of services or facility

The State may, at its sole discretion, request G4S to implement modifications (to the prison or the services). This includes the ability to remove services from the project scope. Under the modifications regime, G4S must provide an estimate of the cost impact of any

modification proposed by the State. All costs must be provided on an open-book basis, with certain pricing elements pre-agreed in the Extension Contract, such as margins where applicable.

## 2.11 Finance

All private financing for Port Phillip Prison has been extinguished by G4S, with G4S carrying no residual project related financing commitments for the extension term. From 10 September 2017,

the prison and all related assets and equipment will be owned by the State, subject to the terms of the Extension Contract.



## 2.12 Forensic mental health services

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The Extension Contract provides for the introduction of Forensicare as a nominated subcontractor to G4S to provide forensic mental health services at Port Phillip Prison (St Vincent's Hospital will continue to provide primary and secondary health services at Port Phillip Prison). This change in provider at Port

Phillip Prison will support the implementation of the Department of Justice and Regulation policy to develop a forensic mental health bed management system across the prison system, following commencement of Forensicare's responsibilities at the Ravenhall Prison.

## 2.13 State rights at expiry of the Extension Contract

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The Extension Contract requires G4S to hand back the prison to the State at the expiry of the term of the Extension Contract for nil consideration and in a condition that meets the requirements of the Extension Contract.

To ensure that the assets are in sound working order, the prison will be independently inspected on a six-monthly basis in the years leading to the expiry of the term of the Extension Contract to ensure that all lifecycle

and maintenance works have been completed and that the prison will meet the required hand back condition. The hand-back provisions are described in the Extension Contract.

If G4S fails to complete any final refurbishment works to satisfy the hand-back requirements, the State may undertake the works and the cost incurred by the State in doing so will be a debt due and payable by G4S to the State.

## 2.14 Audit and inspection rights of the State

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The Extension Contract has contractual rights for the State to be given access, including to:

- » the prison to review, inspect, test and monitor the provision of the services
- » the accounts and records of G4S and its key subcontractors for examination, audit, inspection, transcription and copying.

The State has the ability to disclose information in connection with the Extension Contract to satisfy the disclosure requirements of the Victorian Auditor-General or to satisfy the requirements of parliamentary accountability.

## 2.15 Current version

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This document may be updated from time to time. Please refer to [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au) for the current edition.

## Appendix 1

# Glossary

Terms used in this Project Summary have the meaning given to them in the Extension Contract, unless otherwise defined in this Glossary or elsewhere in this document.

Term	Meaning
<b>CCTV</b>	closed circuit television.
<b>Extension Conditions</b>	has the meaning given in section 1.5 of this document.
<b>Extension Contract</b>	the Amended and Restated Prison Services Agreement which is an annexure to the Deed of Novation, Amendment and Restatement dated 17 December 2017 between the State and G4S Correctional Services (Australia) Pty Ltd for the continuation of services at Port Phillip Prison from 10 September 2017.
<b>FMH</b>	forensic mental health.
<b>Forensicare</b>	Victorian Institute of Forensic Mental Health, trading as Forensicare, a Victorian Government statutory agency.
<b>Further Term</b>	has the meaning given to the term Further Extension Term in the Extension Contract.
<b>G4S</b>	the contractor to the State for the provision of all services under the Original PSA and Extension Contract; includes G4S Custodial Services Pty Ltd and G4S Correctional Services (Australia) Pty Ltd, as appropriate. Refer to section 2.2.
<b>Initial Term</b>	has the meaning given to the term Initial Extension Term in the Extension Contract.
<b>Negotiation Strategy</b>	the document referred to by that name in section 1.3 of this document.
<b>Original Site Lease</b>	the lease granted by the State to G4S Correctional Services (Australia) Pty Ltd in respect of its occupation and use of the site on which the prison is located for the purposes of performing the services under the Original PSA.
<b>Original PSA</b>	the Prison Services Agreement dated 10 July 1996 between the State and G4S Correctional Services (Australia) Pty Ltd.
<b>Probity and Process Deed</b>	the document referred to by that name in section 1.3 of this document.
<b>Project</b>	the Port Phillip Prison Contract Extension Project.
<b>Public Sector Comparator or PSC</b>	has the meaning given to that term in section 1.5 of this document.
<b>QSP</b>	Quarterly Service Payment made by the State to G4S for the provision of services under the Extension Contract.

## Appendix 2

# Useful references

Project documentation, including the Extension Contract, is available at: [www.tenders.vic.gov.au](http://www.tenders.vic.gov.au)

Partnerships Victoria policy guidance and project information is available at: [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au)

Department of Justice and Regulation website: [www.justice.vic.gov.au](http://www.justice.vic.gov.au)

Corrections Victoria website: [www.corrections.vic.gov.au](http://www.corrections.vic.gov.au)

## Appendix 3

# Key contact details

### Department of Justice and Regulation

Website: [www.justice.vic.gov.au](http://www.justice.vic.gov.au)

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Phone: (03) 8684 0000

### Partnerships Victoria

Website: [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au)

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