

Developing step by step guidelines for NRM groups to implement competitive tenders in Queensland

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Background

- **Experience with 2 MBI pilot programs**
 - ✓ Desert Uplands – designed experimental auctions for landscape linkage
 - ✓ simplified auction worked with landholders
- **National Action Plan Salinity and Water Quality**
 - Queensland – State-level investment programs (SIPS)
 - Social and Economic SIP – Program 5 (SEO5)
 - “developing and trialing a toolkit of incentives and market based instruments for regional NRM”.
 - http://www.regionalnrm.qld.gov.au/planning/state_wide/nas/se05.html
- **Tender to write guidelines for competitive tenders for conservation contracts – use by regional NRM groups**

Scenario

- **Success of BushTender**
 - **National MBI pilots - complex / experts**
 - **Queensland jumped ahead – SEO5**
(before lessons of pilots emerged)
 - ✓ **Guidelines 2004**
 - ✓ **2005 regional NRM groups given \$100,000 to help design an MBI**

| Theory | Practice |
|------------------|---------------------|
| Complex/ experts | Simple / no experts |

- **By the end of the year we had written the guidelines**
- **Now a year later we are involved with 2 regional NRM groups who are implementing competitive tenders**

Implementation

- **Desert Uplands**
 - ✓ **go live of the MBI pilot**
 - ✓ **run by NRM sub-regional group** (partners in the pilot)
 - ✓ **two stage auction for landscape linkage**
 - ✓ **single management action – maintain min ground cover**
- **Fitzroy Basin Association**
 - ✓ **no experience – trying new tools**
 - ✓ **probably single round auction**
 - ✓ **Single management action – same as DU**
- **Design on both to be confirmed**
 - **6 months preparation – contracts signed before June 30**
 - **we will evaluate both projects – compare the two and against fixed price devolved grants and stewardships schemes**
 - **use experimental workshops as information sessions plus data**

Competitive tender guidelines

- **Process of simplification and reference to seeking expert advice**
- **Challenge – design a simple method that couldn't get into too much trouble**
- **Palatability**
- **Guidelines**
 - ✓ **Tender design**
 - ✓ **Metric design**
 - ✓ **Contract design**
 - ✓ **Project management (monitoring)**
 - ✓ **Participation rates**
 - ✓ **Tender documents (Bid development guidelines)**

Tender design

- **Considered multiple bidding rounds for competitive efficiency (not clear efficiency gains Vs learning effects)**
- **Considered two stage bidding round (+ group bids) for corridor linkage**
 - ✓ **Site visit – when to conduct it**
 - ✓ **Information feedback (withhold Vs reveal)**
 - ✓ **low participation – bidders drop out**
 - ✓ **use of web based information – could not be assumed**
- **Simple 6 step process for single round auction**

Tender design

| Step | Description | Timelines |
|--------------------|--|---|
| <i>Preparation</i> | <i>See Section 9.1</i> | 6 months |
| Step 1 | Calls for expressions of interest (EOI) and information sessions | 2 months |
| Step 2 | Landholders receive tender documents and prepare bids | 1 month |
| Step 3 | Tender bids submitted | Closing date 4-6 weeks after EOI close |
| Step 4 | Bids are evaluated and the most cost effective bids are selected | 2 weeks from close |
| Step 5 | Winners are notified and management contracts are signed | 2 months |
| Step 6 | Contract implementation with regular monitoring and payment schedules | On going |
| <i>Evaluation</i> | <i>See Section 9.4</i> | On going – completed 3 months after project close |

Tender design – management actions

- **Generic guidelines with template documents. Dummy scenario - three management options**
 - ✓ **Management Option A: Single action – single level**
 - ✓ **Management Option B: Single action – multiple levels**
 - ✓ **Management Option C: Multiple actions – multiple levels**

- **Management Option A: Single action – single level**
 - **Commitment to retain a certain amount of pasture at the end of the dry season annually – about 1500kg/ha**

- **Management Option B: Single action – multiple levels**
 - about 1500-1700 kg/ha
 - about 1750-2000 kg/ha
 - about 2050- 2200kg/ha
 - (Weights for each level need to be determined)

Management Option C: Multiple actions and levels

Riparian management

| Management Condition 1 | | Management Condition 2 | |
|---|--------------------|-------------------------------------|-----------------------|
| Distance from the top of the main bank | | Minimum grass cover retained | |
| Level A: | Minimum 50 metres | Level A: | about 1500-1700 kg/ha |
| Level B: | Minimum 75 metres | Level B: | about 1750-2000 kg/ha |
| Level C: | Minimum 100 metres | Level C: | about 2050-2200 kg/ha |
| Management Condition 3 | | Management Condition 4 | |
| Percentage of the year stock excluded | | Specify | |
| Level A | 40% | Level A: | specify |
| Level B | 50% | Level B: | specify |
| Level C | 60% | Level C: | specify |

Tender design – other considerations

- **Single Vs multiple environmental outcomes**
- **Maintain / improve Vs repair / restore**
- **Cooperation between landholders**
- **Joint bids**
- **Reserve price**
- **Single Vs multiple bidding rounds**

Metric design

- The ecological significance of the environmental assets being considered (Biodiversity Significance Score – BSS)
- The potential improvements in condition as a direct result of landholder management inputs (Management Action Score - MAS)
- Potential cooperation or combination issues that may need to be considered (Combination Score - CS)

$$\text{Final score} = \frac{\text{Environmental score} \times \text{Management score}}{\text{Bid amount}}$$

$$\text{Environmental Score} = \text{Brigalow area} * 10 + \text{Box area} * 5 + \text{Ironbark area} * 2.5 + \text{Yellowjacket area} * 1.5 + \text{cleared area} * 0.5$$

The management scores have been assigned as follows:

Level A = 1

Level B = 1.25

Level C = 1.5

Other issues

- **Contract design – template supplied by DNRM**
- **Project management**
 - ✓ monitoring – recommend simple not too onerous (depends on compliance costs and payments)
- **Participation rates**
 - Probably more of an issue a year ago
 - Need everything open and accountable
 - Avoid bid assessment panel
 - Participation incentives
 - need sufficient pool winners (need to sell the method for future application – may cost more)
- **Tender documents – bid development guidelines**
 - ✓ Bid development assistance

| | A | B | C | D | E | F | |
|----------------------------------|---|------------------------------|-------------------------------|-----------------------------|--------------------------------|------------------------|-----------|
| Vegetation type | Hectares set aside | Current stocking rate | Value of production per beast | Current revenue (BxC) | Reduction in stocking rate (%) | Reduced income (DxE) | |
| <i>Example</i> | <i>10</i> | <i>0.5 (ie 1 beast/20ha)</i> | <i>\$300</i> | <i>\$150 (0.5x300)</i> | <i>20%</i> | <i>\$30 (150x0.20)</i> | |
| Brigalow | | | | | | | 1 |
| Box | | | | | | | 2 |
| Ironbark | | | | | | | 3 |
| Yellowjacket | | | | | | | 4 |
| Cleared/developed country | | | | | | | 5 |
| Add all costs | Total change in cattle income over one year | | | Total 1 to 5 | | | 6 |
| | Add on any other costs | | | | | | 7 |
| | | | | Total cost (6+7) | | | 8 |
| Remove all benefits | Reduced operating costs | | | | | | 9 |
| | Any other cost reduction or savings | | | | | | 10 |
| | | | | Total benefit (9+10) | | | 11 |
| | | | | TOTAL COST 8-11) | | | |
| | Total cost of change | | | TOTAL COST 8-11) | | | |

| Vegetation type | Normal stocking rate | Change in stocking rate (cattle/acre) | Value of production per beast | Value per acre per annum |
|---------------------------|--------------------------|---------------------------------------|-------------------------------|---------------------------------------|
| Gidgee/Brigalow | 1 beast to 50 acres | 20% | \$225 per annum | 20% of \$225 ÷ 50 acres = \$0.90/acre |
| Box | 1 beast to 40 - 50 acres | 10% | \$225 per annum | 10% of \$225 ÷ 40 acres = \$0.50/acre |
| Broadleaf Ironbark | 1 beast to 45 - 55 acres | 5% | \$200 per annum | 5% of \$200 ÷ 50 acres = \$0.40/acre |
| Yellowjack | 1 beast to 65 - 75 acres | 5% | \$200 per annum | 5% of \$200 ÷ 70 acres = \$0.29/acre |
| Cleared country | 1 beast to 15 - 30 acres | 10% | \$250 per annum | 10% of \$250 ÷ 20 acres = \$1.25/acre |

Tender guidelines – how wrong can you go ?

- **Most do not know they are available – even the two we are working with! - Understand they need guidance.**
- **QMDC – used template tender offer forms – not metric just area**
- **FBA only investing \$150,000 in incentive payments**
 - ✓ **Learning exercise for FBA and landholders**
 - ✓ **FBA skilling themselves for future use (evaluation)**
 - ✓ **If no environmental outcomes – not a waste of money**
- **DU large budget \$500,000 + \$500,000 – deciding whether to extend length of contract or number involved. Project evaluation more important**
- **Current NAP allocation (end 2007) too limited to produce good outcomes - does not allow for ongoing monitoring**
- **Contracts and legal issues could be a problem if longer**
- **METRIC is a major issue- NRM groups do not have resources**

Auctions– what can NRM groups handle?

- **will learn more about capacity after two implementation projects**
- **Clearly do not understand economics or issues behind the design**
- **Simple competitive tender OK**
- **Need more capacity building and expert assistance before try more complex MBIs**
- **Still need better science to understand environmental services at the farm level. Neither buyer or seller have full understanding of marginal changes in the product traded.**
- **Computer technology /information key to above**