

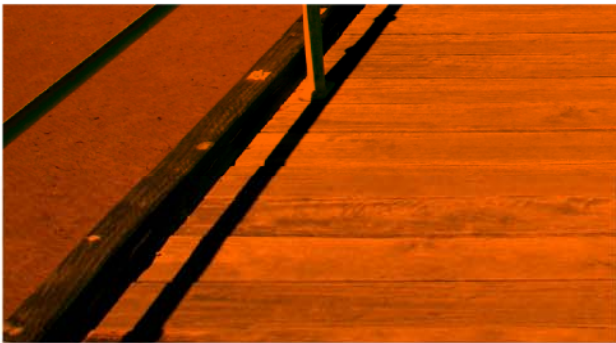


Roger Olds

CEDA luncheon

Delivering Infrastructure

16 April 2009



Delivering Infrastructure- a practitioner's perspective

- Introduce Coffey
- Where are we at?
- What are the options?
- How do they compare?
- Alliances in a bit more detail
- Case Study
- Conclusions

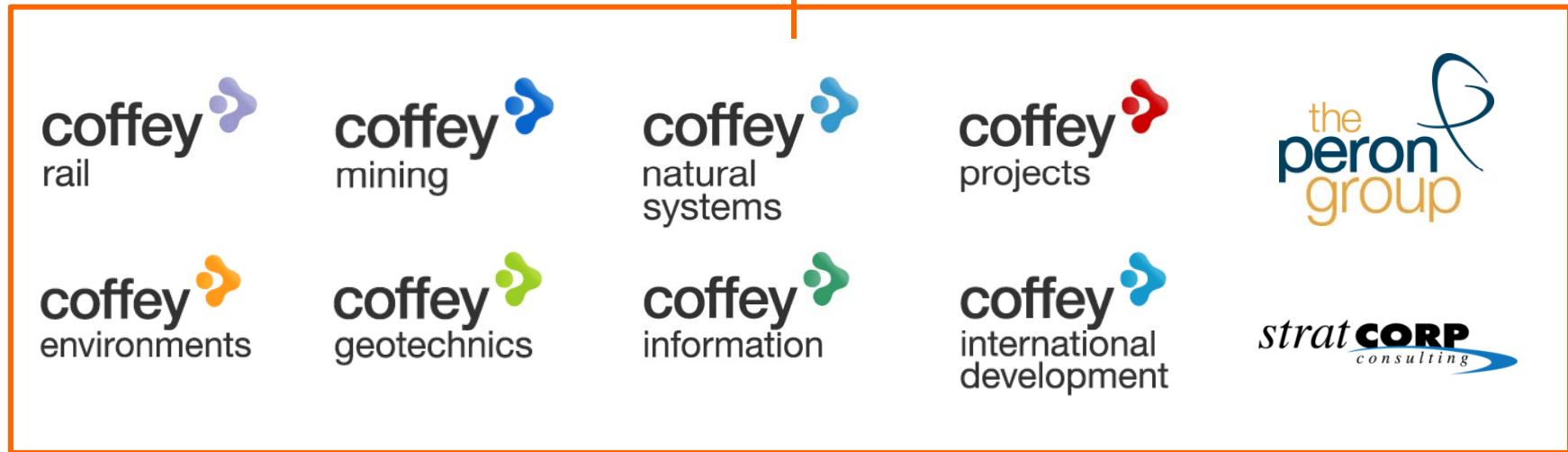
Coffey overview

- A specialist consulting firm in physical and social infrastructure
- Part of ASX 300
- 4000 people
- Operations in more than 80 countries
- Has worked on Australia's infrastructure delivery as specialist consultant for 50 years

Specialist services across a range of sectors

Sectors
Infrastructure, Government, Resources, Property, International Development, Sports & Leisure

coffey  SPECIALIST KNOWLEDGE
EXTRAORDINARY OUTCOMES



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The challenges

- Efficiently deliver major infrastructure stimulus packages with restricted private risk capital
- To build quality infrastructure that will create sustainable solutions for the future
- To create employment across Australia
- To create models we can export

The generic contract delivery options

1. Construct only
2. Design & construct
3. Alliance
4. PPP – risk equity model with long term operating risks
5. Alternate PPP – investment capital with long term yield

1. Construct only contract

- Needs detailed design
- Owner needs detailed knowledge to brief designers
- Timely to develop
- No construction input to design
- Selection of construction is usually lowest price
- Tight specifications with little or no space to innovate
- Subject to lots of management, potential claims and disputes
- Owner carries operating risks
- Works well for knowledgeable owner and simple projects

2. Design & construct contract

- Owner can specify functional needs without detailed drawings and specification
- Design and construct team create constructible solutions
- Community and environmental approvals remain as owners issues to manage
- Cheapest price normally selected
- Post award scope changes expensive
- Still need to manage contract carefully to limit claims/disputes
- Little scope for innovation as 'owner' specification rules

3. Alliance contract

- A contract where all parties act as 'one team' – agree not to sue each other (TRUST is the essence)
- Principles driven behaviour
- Open book with painshare/gainshare around MCOS
- All win or all lose; no win-lose
- Owner only needs to know fundamental objectives
- Alliance can potentially share/manage as many risks as owner wants to share; typically project delivery until now
- Owner seeks innovation and allows freedom for team to create 'best for project' outcomes
- Project governed by 'Board' with all alliance partners represented and unanimous decision making
- Owner typically takes operating risks

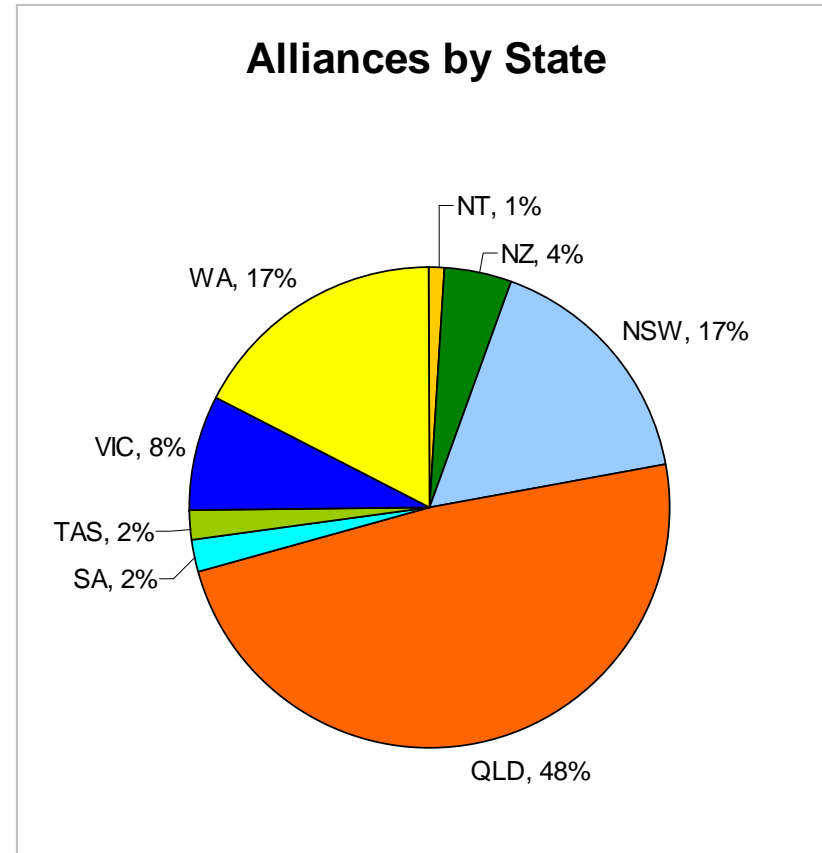
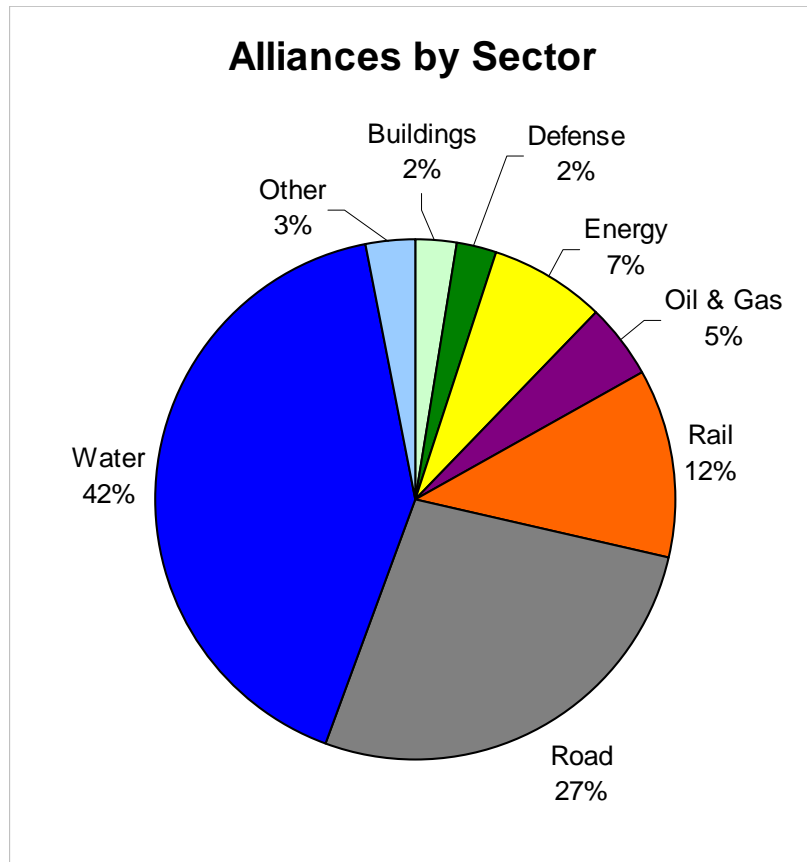
4. PPP

- Owner becomes equity player with functional requirements
- Private equity partners take on delivery and certain operating risks
- Equity partners shed as much delivery risk as possible to a D&C or DCM consortium; relationship is potentially adversarial
- Equity partners raise capital to gain leverage or share financing risk
- Private finance take fees for the privilege of providing capital
- Designers and builders take on delivery risks at modest fees by comparison
- Little appetite for risk capital in current market given some failures of road projects in particular
- But M1 in Melbourne is interesting PPP between Transurban and State, where delivery mechanism is Alliance; difference is that Transurban is knowledgeable operator of road now and clearly understands operating finance model
 - Some managed by VicRoads
 - Some managed by Transurban

5. PPP alternative form

- States and other authorities need capital to deliver the works
- Still lots of capital in superannuation funds and private equity but a large volume of capital has exited the Australian market
- Investors not wanting to risk capital in traditional 'risky' PPP
- Option to provide 'investment' capital at moderate yields
- Government Bonds or shadow equity models could be used
- Recent announcement in Victoria of freeway with State to pay by availability, not usage, removes patronage risk. Only risk is delivery and maintenance which is more predictable.
- What other innovative forms of win-win could we generate?
- Could we bring the right type of capital provider into an alliance?

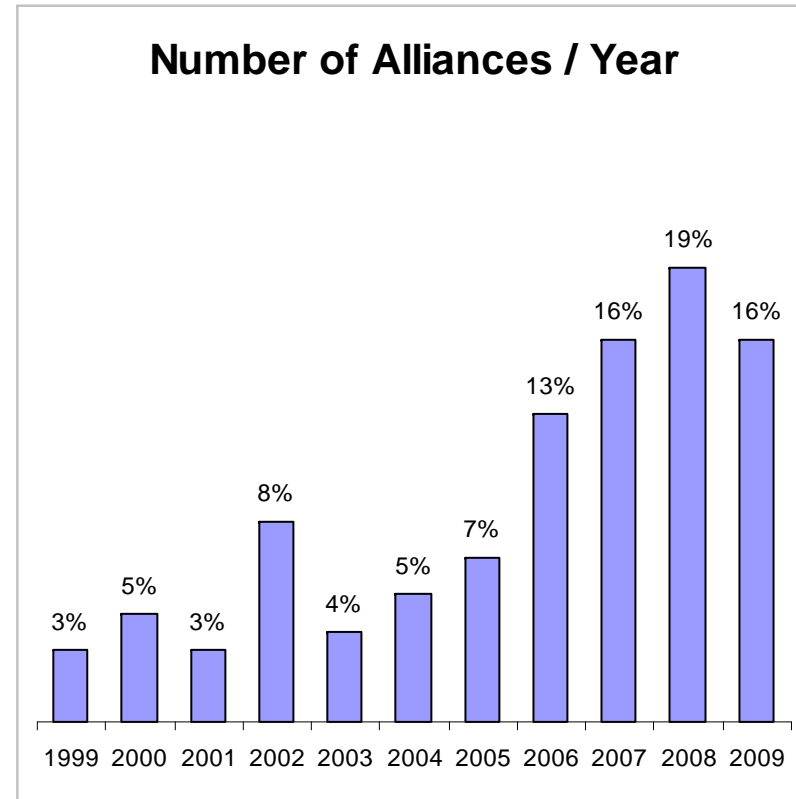
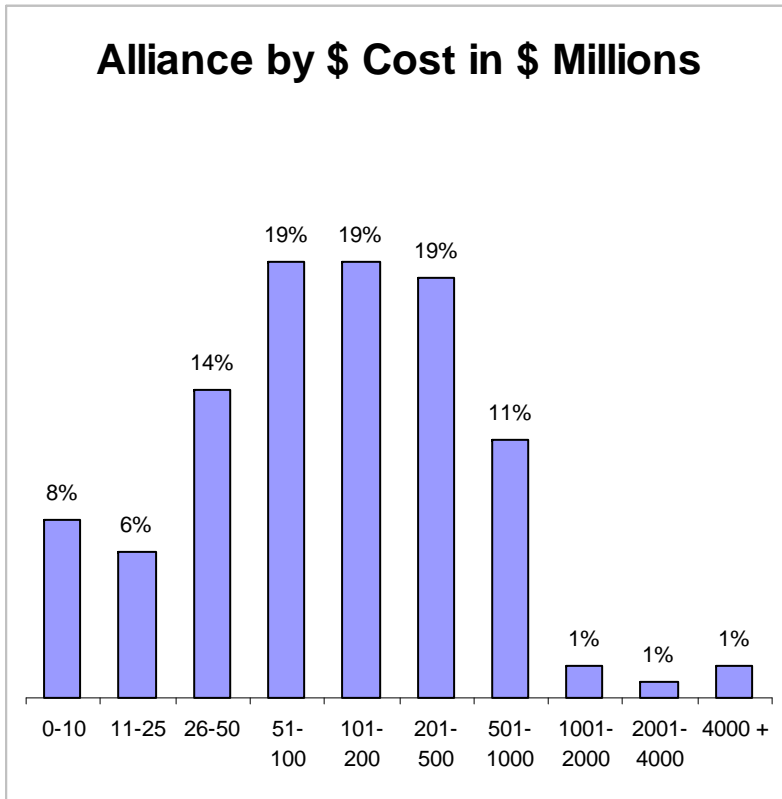
Alliances in Australia and NZ



Based on an inventory of 171 Public Sector projects 1998-2008
 Source: Database project - AAA's Project Alliance Inventory, Feb 2008



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Personal experience with alliances

- Seven projects since 2000; QLD & NSW
- All very successful for all parties
- Four of them for client in first alliance
- Fear was overcome and trust quickly developed
- All clients have done more or propose using if needed
- An extremely value added approach to delivery
- Could potentially be extended to take on certain operating risks as well; principles can certainly apply and there are many maintenance alliances in existence



Inner Northern Busway, QLD

Benefits of alliancing

- Flexibility to meet client needs without detailed specification
 - e.g. Lawrence Hargrave Drive
- Can take on more risk than D&C only and deliver superior outcomes
 - e.g. Port of Brisbane Seawall
- Can deliver quickly if needed
- Risk/reward model drives win-win or lose-lose
- No wastage in adversarial matters
- Innovation – value creation
- Can lift industry standards if we capture and utilise learnings



Top: Lawrence Hargrave Drive, NSW

Bottom: Port of Brisbane Seawall Expansion, QLD

Challenges for alliancing

- No price competition; treasury concerns
- Price competition in alliances is a bad way to start the project – unpriced risks are forced into price with no way to be reimbursed for them
- Greed of parties over-riding principles
- Finding enough people to keep delivering the ‘A’ teams
- Ensuring owners have enough of the right people to participate and be strong on Board
- Bid costs – particularly for consultants
- Trying to get too sophisticated in commercial models

E.g. Barwon Water

- Faced with massive increase in capital works Program
- Did not have resources to manage this work with in-house resources
- Considered range of delivery options
- PPP financing not available
- Have proceeded to program alliance to deliver major part of works – 80 projects worth \$300m over 4 – 6 years
- BW believe the alliance will increase their IP during delivery, and support their cultural change program
- Recognise the significant investment up front; but also benefits overall
- Are using alternative delivery methods on other infrastructure so great case to compare

Conclusions

- Selection of procurement model needs to suit project objectives and client capability
- Someone bears the cost of risk
- Active risk management is way better than risk transference as a sustainable solution for industry
- Private risk equity has dried up due to GFC but also some risk realisation on some projects
- A new source of funding with less risk and lower returns has a place in the market
- Alliancing has proven to be an advanced form of delivery for complex projects that creates flexibility and value for all
- The concept of trust and risk sharing is diametrically opposed to the risk shedding approach; and not surprisingly to me, it is working well