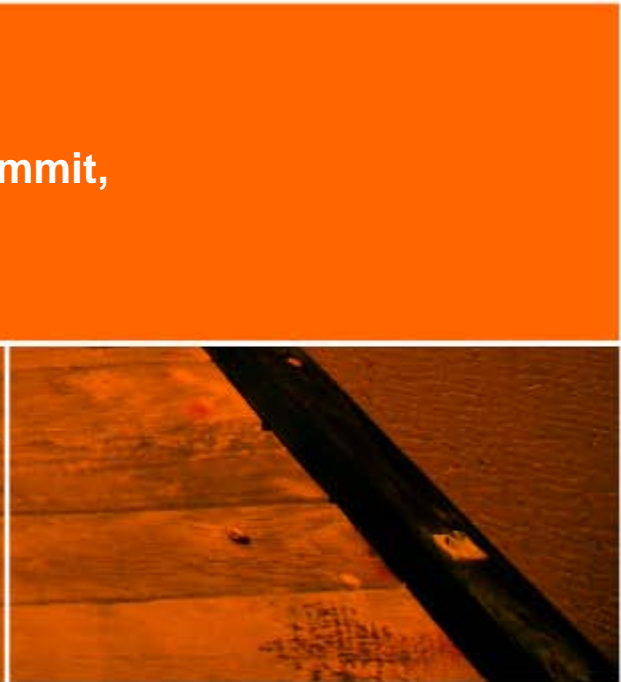




Roger Olds

**South Island Alliancing Summit,
Christchurch, NZ**

6 May 2009



Alliancing; a valuable construction delivery method

- What is alliancing?
- When and why?
- What can it deliver?
- The challenges and opportunities
- Examples
- Conclusions

The alliance contract

- A contract that unites the owner, constructor and designers to deliver a project
- A defining element of the contract is the 'no sue' clause
- All risks are shared and priced into the project TOC
- TOC is independently verified
- Risk-reward models; principle of all win or all lose
- Client focussed KPIs are set to drive desired project outcomes
- Unanimous decision making by ALT
- Open book financials; NOPs put profit and overhead at risk

The required behaviours to succeed

- Client selects the best team
- Price is not a factor (except in competitive alliance)
- A virtual organisation of people committed to a project vision
- Establish definition of success for the project and set KPIs
- Commitment to deliver high performance in all KPIs
- No self-interest; shared knowledge brought to each challenge
- People selected on best person for the position
- A principle of 'No variations' is normal
- Challenging the normal outcomes with innovation
- Managing risks pro-actively and collectively
- Respect and recognition

When and why to adopt alliance

- Probably need \$50m project to justify overhead although nearly 30% of alliances have been under \$50m
- If you can't clearly specify all key project elements for a conventional D&C contract eg Wivenhoe
- If you want to go to market quickly with only functional brief eg LHD
- If you are seeking substantial innovation or risk sharing
- If you want to remove waste of managing adversarial boundaries



Top: Wivenhoe Dam, QLD

Bottom: Lawrence Hargrave Drive, NSW

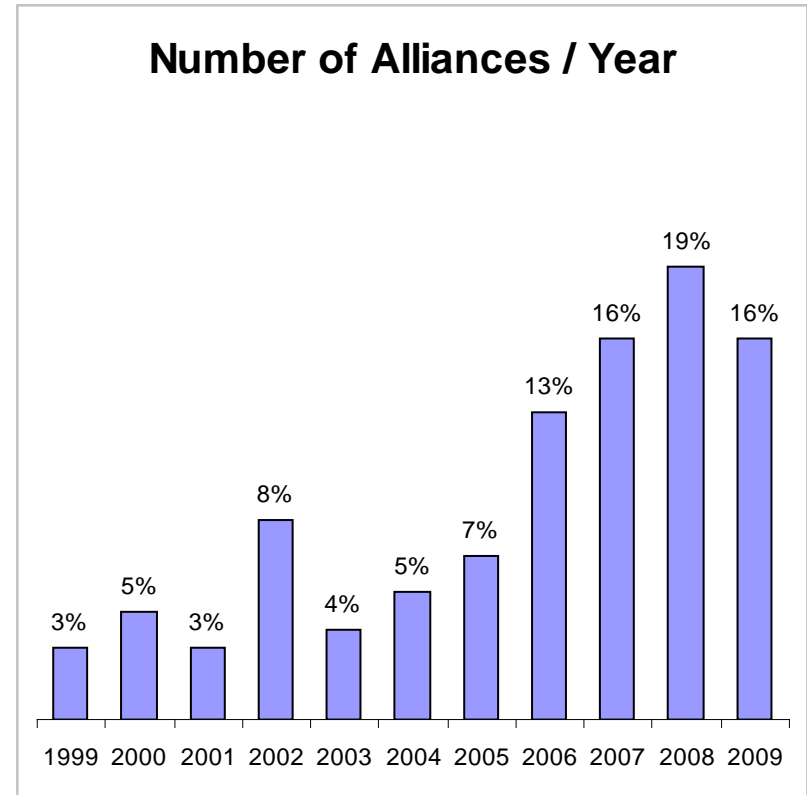
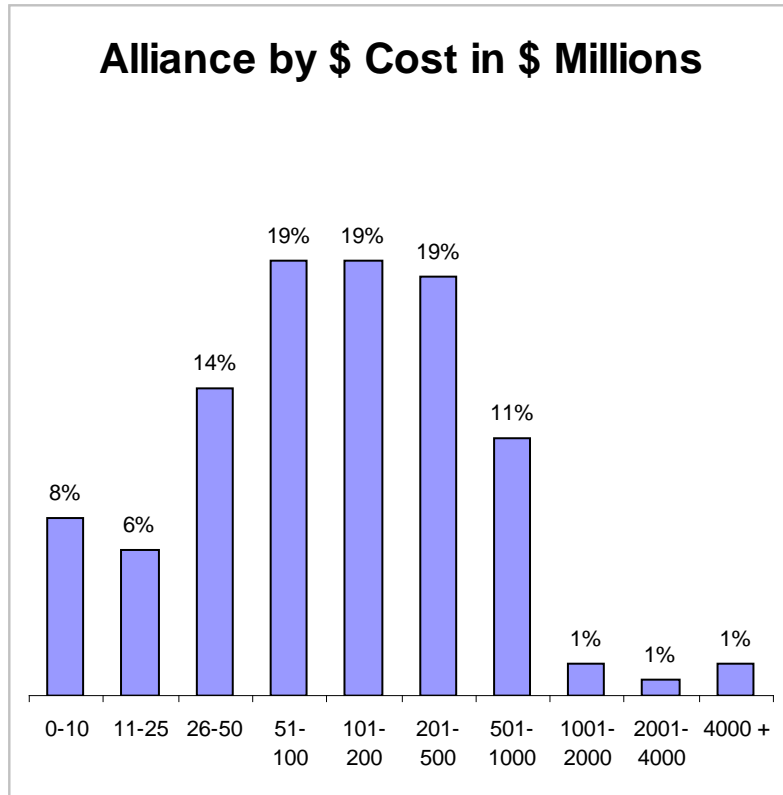
What can an alliance offer?

- Owner can actively manage (with assistance of whole team) project to suit needs without constant threat of variations
- Full knowledge of owner constructor and designers brought to every issue
- Ability to adapt to issues as they occur
- No variations, disputes, post project litigation
- All energies focussed on solutions
- Excellent value for money
- A very satisfying project for all involved

What do NOPs get

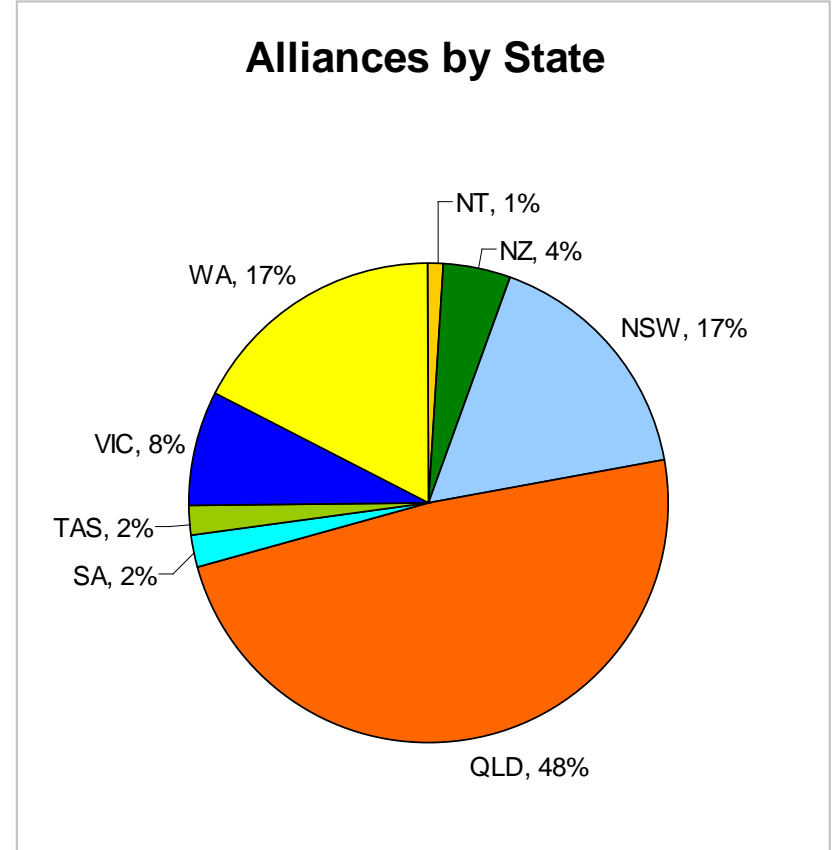
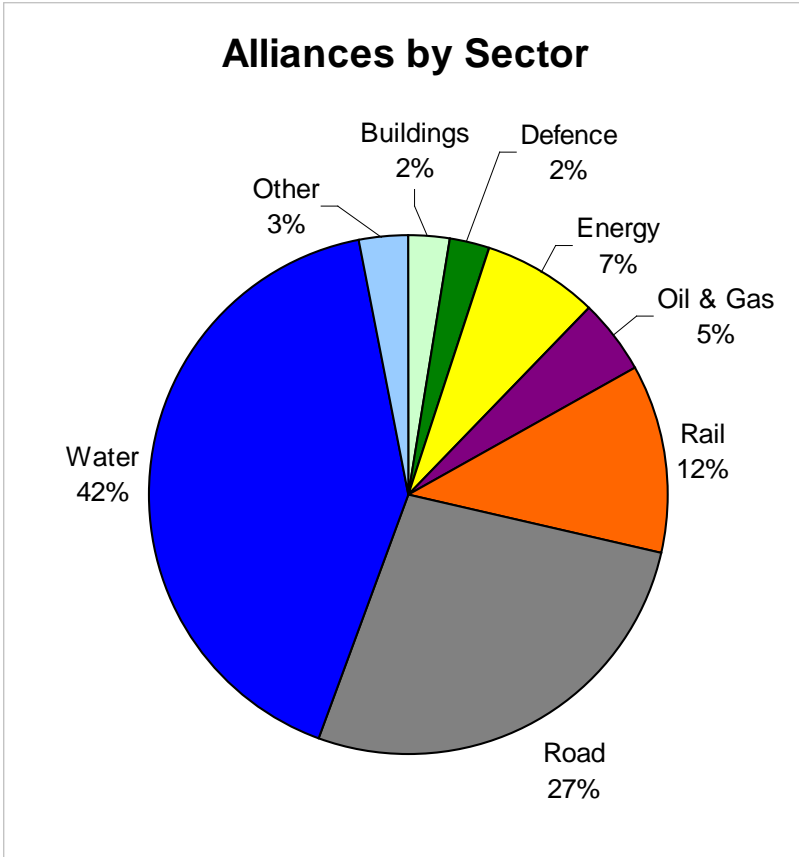
- Normal profit and overhead for BAU outcome
- Rewards for better performance
- Reduced profit for under BAU result up to whole profit and overhead being lost in worst case
- No disputes
- Strong relationships with other partners
- Scope to engineer innovative solutions
- Ability to estimate, price and manage all risks

How are alliances progressing 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

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

How has alliancing changed over 10 years?

- Seen 2 models; pure and competitive
- Pure selects the best team as assessed by owner team
- Competitive is like D&C but takes on lot more risk as a result of no variations eg Windsor Road
- Insurances now available for design error
- Commercial models becoming over complicated
- Is greed starting to replace passion?
 - Clients expect more for less
 - NOPs expect more for less

Challenges for alliancing

- Overcoming the attitude that Value for Money equals lowest price
- Ensuring teams stick to core principles
- Finding enough A teams
- Having the right people to sit on ALTs rather than having to 'represent' each participant
- Bid costs and ALT cost for consultants is proportionately higher
- Costs of PI insurance seem excessive
- Ensuring quality of independent TOC reviews as critical part of assuring valid price

Opportunities for alliancing

- Introduce finance partners to provide new form of PPP
- Take on bigger projects
- Adapt principles for smaller projects
- Engage treasuries to demonstrate value for money
- Take learnings into organisations to shift culture of industry
- Expand into the building industry
- Take on whole of life risks

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



Inner Northern Busway, QLD

Examples

- Lawrence Hargrave Drive; NSW
 - Rockfall prompted closure
 - No idea of solution
 - Community in uproar
 - Highly political
 - 100 year old problem
 - Limited funding
- Port of Brisbane Seawall; SEQ
 - Environmental reputation
 - Major marine construction
 - Protestor
 - Able to include and add to owner assets



Top: Lawrence Hargrave Drive, NSW

Bottom: Port of Brisbane Seawall Expansion, QLD

Examples

- Windsor Road Sydney
 - Competitive bid
 - Took on unknown risks
 - Faced major losses
 - Managed to overcome
 - Would not do it again
- Inner Northern Busway Brisbane CBD
 - Major CBD infrastructure
 - Brownfield site retrofit of KGS
 - Added phase 2 and bridge
 - Major stakeholder mgt



Top: Windsor Rd North West Connect Alliance, QLD
Bottom: Inner Northern Busway, QLD

Conclusions

- 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' approaches of some other delivery methods; and not surprisingly to me, it is working well
- There is a limit to the type of projects and type of people in the industry suited to alliance contracts; but we can learn!
- I am concerned that the commercial models are becoming overly complicated at the expense of the principles
- I see the possibility to replace PPP risk shedding projects with private financiers stepping into alliance and sharing risk/reward
- It is a great model for our industry to pursue as it can create a culture of trust and collaboration that can flow to other forms of contract